2003 Annual Report of the

Office of the Provincial Auditor of Ontario

to the Legislative Assembly

104-01948/

To the Honourable Speaker of the Legislative Assembly

In my capacity to act in the place of the Provincial Auditor, I am pleased to transmit the Annual Report of the Office of the Provincial Auditor of Ontario for submission to the Assembly in accordance with the provisions of section 12 of the *Audit Act*.

Jim McCarter, CA
Assistant Provincial Auditor

Fall 2003

Copies of this report are available for $6.00 from the Ontario Government Bookstore, 880 Bay Street, Toronto, or by writing to Publications Ontario, 50 Grosvenor Street, Toronto, Ontario, M7A 1N8. Telephone (416) 326-5300. Toll-free long distance 1-800-668-9938. An electronic version of this report is available on the Internet at **http://www.auditor.on.ca**

On peut se procurer des exemplaires de ce document, en français, au prix de 6 $ à la Librairie du gouvernement de l'Ontario, 880, rue Bay, Toronto, ou en écrivant aux Services des publications, 50, rue Grosvenor, Toronto (Ontario), M7A 1N8. Téléphone : (416) 326-5300. Appels interurbains sans frais : 1 800 668-9938. On trouvera une version électronique de ce document sur Internet à l'adresse suivante : **http://www.auditor.on.ca**

©2003, Queen's Printer for Ontario
Imprimeur de la Reine pour l'Ontario

ISSN 0843-4050

Table of Contents

Chapter One: **Overview and Value-for-money Audit Summaries** 1

Chapter Two: **Towards Better Accountability** 16

Chapter Three: **Reports on Value-for-money (VFM) Audits** 26

Attorney General

3.01 Court Services 27

Community, Family and Children's Services

3.02 Children's Mental Health Services 52
3.03 Family Responsibility Office 69

Consumer and Business Services

3.04 Policy and Consumer Protection Services Division 94

Education

3.05 Curriculum Development and Implementation 120

Enterprise, Opportunity and Innovation

3.06 Business and Economic Development Activities 145
3.07 Science and Technology 163

Environment

3.08 Environet 197

Health and Long-Term Care

3.09 Public Health Activity 217

Training, Colleges and Universities

3.10 Ontario Student Assistance Program 245

Chapter Four: **Follow-up of Recommendations in the *2001 Annual Report*** 266

Agriculture and Food

4.01 Food Industry Program 267

Attorney General

4.02 Legal Aid Ontario 277

Attorney General, and Public Safety and Security

4.03 Integrated Justice Project 283

Community, Family and Children's Services

4.04 Support to Community Living Programs 290
4.05 Violence Against Women Program 295

Education

4.06 Special Education Grants to School Boards 300

Finance

4.07 Community Reinvestment Fund 310
4.08 Gasoline, Fuel, and Tobacco Taxes 316

Health and Long-Term Care

4.09 Drug Programs Activity 325
4.10 Assistive Devices and Home Oxygen Programs 337

Transportation

4.11 Road User Safety Program 346

Chapter Five: Public Accounts of the Province 356

Chapter Six: The Office of the Provincial Auditor 372

Chapter Seven: The Standing Committee on Public Accounts 385

Exhibits

Exhibit One: Agencies of the Crown 393
Exhibit Two: Crown-controlled Corporations 395
Exhibit Three: Treasury Board Orders 398
Exhibit Four: The *Audit Act* 401

CHAPTER ONE

Overview and Value-for-money Audit Summaries

OVERVIEW

COMMON THEMES

Our mission is to assist the Legislative Assembly in holding the government and its administrators accountable for the quality of the administration's stewardship of public funds and for the achievement of value for money in government operations. In this year's report, we present a number of areas where value for money is not being achieved and make recommendations that, if implemented, will assist the Legislature in ensuring that government services are being provided in a more cost-effective manner.

Two themes emerge most strongly from our report this year. They are:

- Far too many concerns noted in our prior audits are not being satisfactorily addressed. We found that many of the significant concerns identified in this year's audits were raised by us the last time we audited the program or activity. In some cases, these same concerns were raised almost ten years ago.
- All too often, management information systems are not adequate to provide the information needed to make sound and prudent business decisions. Over the years, we have continually emphasized the importance of better information for decision-making. One of senior management's most important responsibilities is to identify what information is needed to make informed decisions and to ensure that systems and procedures are put in place to provide decision-makers with accurate, useful, and timely information.

Concerns from Previous Audits

Most of this year's value-for-money audits examined programs that we have previously audited as part of our cyclical VFM-audit approach. Unfortunately, in many of these audits, a number of the concerns identified had been raised by us in prior audits, yet they had still not been satisfactorily addressed. Here are four examples from this year's audits:

- *Court Services, Ministry of the Attorney General*—In 1997 we noted that successful implementation of a number of initiatives was needed to address the serious backlog of court cases and deficiencies in the management of program resources. In this year's audit of court services, we concluded that little progress had been made. As a result, the backlog of cases had increased substantially since 1997, efforts to collect millions of dollars in outstanding fines continued to be lacking, and the effective administration of the courts was still being hampered by the lack of a clear division of responsibility and accountability between the Ministry and the Judiciary.
- *Family Responsibility Office, Ministry of Community, Family and Children's Services*—This Office administers and enforces all court-ordered child and spousal support payments. In this year's audit we concluded that more aggressive and timely enforcement action needed to be taken on non-payment of support orders. For example, we found that appropriate enforcement action was often not begun until six months after the payment deadline had passed, and as long as two years often elapsed between enforcement steps. We had expressed similar concerns as far back as 1994 and again in our 1999 audit of this program.
- *Children's Mental Health Services, Ministry of Community, Family and Children's Services*—This program funds community-based agencies that provide services to children and families of children who have social, emotional, or psychiatric problems. As was the case in our last audit of this program in 1997, we found that the Ministry was not adequately monitoring and assessing the quality of services being provided by the community agencies. As a result, the Ministry cannot be assured that vulnerable children in need are receiving the care and assistance they require.
- *Public Health Activity, Ministry of Health*—Public health services are jointly funded by the Ministry and municipalities and are provided through 37 community-based local health units across the province. The services include vaccinations, the prevention of communicable diseases, and dealing with emerging public health issues such as the West Nile virus and Severe Acute Respiratory Syndrome (SARS). Many of the issues and concerns noted during our current audit were also raised by us in 1997. For instance, there is still no analysis of the extent to which individuals may be receiving different levels of health services depending where in Ontario they live. As well, the required medical surveillance procedures for immigrants with inactive tuberculosis are still not being adequately monitored and enforced.

Management Information Systems

As we have said before, good administration of public funds depends on good decisions based on good information. For far too many years we have heard program managers and staff express concerns that the information they need is just not available from the systems that are in place. Again this year, we encountered a number of situations where the management information systems and procedures in place were inadequate to meet the information needs of the decision-makers.

We believe that ministries' inability to address this issue is often one of the main contributing factors for the lack of effective implementation of our recommendations. This is evident from some of the following examples from five of this year's audits:

- *Court Services, Ministry of the Attorney General*—The Ministry of the Attorney General, the Ministry of Public Safety and Security, and the Judiciary have long recognized the need for effective, up-to-date technology for use in management of the courts. However, a project to achieve an integrated information system was cancelled after a ministry investment of $21 million and six years of effort. With the cancellation of the project, there has been little overall improvement to the court's outdated computer and management information systems.
- *Family Responsibility Office, Ministry of Community, Family and Children's Services*—In our audit we concluded that this Office was in grave danger of failing to meet its mandated responsibilities unless it takes a number of steps, including significantly improving its information technology and communication systems. As far back as 1994, and again in our 1996 follow-up report, the Ministry of the Attorney General, which was then responsible for the Office, stated that "the current computer system must be replaced"; however, little has been done since that time.
- *Children's Mental Health Services, Ministry of Community, Family and Children's Services*—In previous audits we found that this program did not have an adequate management information system for monitoring financial and service data. In our current audit, although a new system had been implemented five years ago, we once again found that the system was of limited usefulness, since it did not provide the information needed by program staff, and the information it did contain was often inaccurate.
- *Environet, Ministry of the Environment*—In 2000, the Ministry began developing four new "Environet" management information systems to strengthen the delivery of its environment programs. To date, $17.1 million has been spent, and, while progress is being made, the systems do not yet provide ministry staff with the information they need to support their monitoring and inspection activities.
- *Public Health Activity, Ministry of Health*—Controlling disease outbreaks, making informed resource allocation decisions, and making public health policies and procedures more effective require the ongoing collection, analysis, and interpretation of information from across the province. At present, much of the information required is either unavailable or is of questionable quality. We expressed concerns about inadequate information systems in our 1997 audit, and the Ministry confirmed the need for significant improvements in its 2000 Information Technology Strategic Plan. Nevertheless, little progress has been made in this area.

ACCESS TO INFORMATION

The *Audit Act*—the enabling legislation of the Office of the Provincial Auditor—has specific provisions with respect to the Auditor's right to access the information needed to fulfill our audit responsibilities. Specifically, section 10 states that we are entitled to have access to all books, accounts, financial records, reports, files, and all other papers, things, or property necessary to perform our duties under the Act. Clause 12(2)(a) of the Act also requires the Auditor to report in the Annual Report on whether, in carrying on the work of the Office, the Auditor received all the information and explanations required.

Until recently, the Office has not had any significant problems accessing the information we needed to conduct our audit work. However, in our *2001 Annual Report*, we reported an instance where the Office did not receive all the information and explanations it required. The requested information was ultimately received, albeit after much time and effort had been spent. As a result of this incident, Cabinet Office established a protocol dealing with the Provincial Auditor's access to Cabinet-related information. We had hoped that this protocol would ensure that such a situation did not reoccur.

However, during the 2003 audit year we encountered two instances where we did not receive timely access to information. One instance related to our audit of court services at the Ministry of the Attorney General, and the other related to our audit of science and technology at the Ministry of Enterprise, Opportunity and Innovation. While the information from the Ministry of the Attorney General was finally received after several months of effort, we never did receive full access to the documentation we required from the Ministry of Enterprise, Opportunity and Innovation. These two situations are discussed in further detail in Chapter Three, sections 3.01 and 3.07, respectively.

Unfortunately, we found that the protocol on the Provincial Auditor's access to Cabinet documents was part of the problem causing the delays. Specifically, we found that ministries seemed reluctant to provide certain information to us—much of which used to be provided to us on an unhindered basis—because they were apparently not clear on what information fell under the protocol. As soon as these problems began surfacing, we started working with Cabinet Office and Management Board Secretariat to help establish revised practices, particularly with respect to the timely release to us of documentation relating to ministry and agency submissions to Cabinet or to its committees such as Management Board of Cabinet or SuperBuild.

Aside from the two instances discussed above, the other ministries and agencies we dealt with this year did provide us with all the information, explanations, and other documentation we needed. We express our appreciation to the ministry and agency staff that we dealt with this year for their co-operation.

THE PROVINCE'S FINANCIAL STATEMENTS

Auditor's Report

I am pleased to report that my Auditor's Report on the Province's financial statements is clear of any qualifications or reservations. While my report covers all the financial statements, the main focus of the Legislature and the public has historically been on the reported surplus or deficit figure for the year. In my opinion, the reported surplus of $117 million for the year ended March 31, 2003 is fairly stated.

Accounting for Major Capital Assets

In 1997, the Canadian Institute of Chartered Accountants recommended that governments adopt the private-sector accounting practice of recognizing capital assets at cost in their financial statements and amortizing them to expense over their estimated useful lives, rather than expensing them 100% in the year they were acquired. Since then we have been encouraging the Ontario government to adopt this approach.

The government began phasing in this approach for the 2002/03 fiscal year, concentrating its efforts on capitalizing land, buildings, and its transportation infrastructure, which together account for most of the government's total capital. Accordingly, as at March 31, 2003, more than $13.9 billion in tangible capital assets owned by the province were for the first time reflected in the government's financial statements. The remaining capital assets, such as computer systems, vehicles and other equipment, and other smaller-value items, will be similarly recorded in subsequent years. We are in agreement with this phased-in approach.

TOWARDS BETTER ACCOUNTABILITY

Chapter Two of this report provides an update on our long-standing efforts to have our proposed amendments to the *Audit Act* passed by the Legislative Assembly. We also discuss two areas where progress is being made in enhancing the accountability of the government and government administrators to the Legislative Assembly and the public.

VALUE-FOR-MONEY AUDIT SUMMARIES

The following are summaries of the value-for-money audits reported on in Chapter Three of this Annual Report.

3.01 Ministry of the Attorney General Court Services

The Court Services Division (Division) of the Ministry of the Attorney General supports the operations of the court system through a network of approximately 250 courthouses and approximately 3,500 court support staff. Its functions include providing administrative and support services to the Judiciary, preparing enforcement documentation, maintaining court records, and collecting fines.

The Division's expenditures for the 2002/03 fiscal year were $302 million: $107 million was spent on operating the offices of the Judiciary and on salaries and benefits for approximately 650 full- and part-time provincially appointed judges; and $195 million was spent on administrative and court staffing costs and other expenses required to support the operations of courts. In addition, the Ministry spent $35 million on capital projects to modernize and improve court buildings.

In our 1997 audit of what was then the Courts Administration Program, we noted that the successful implementation of a number of ongoing initiatives was needed to address the serious backlog of cases and deficiencies in the management of program resources. However, based on our current audit we concluded that little progress has been made since that time. For example:

- Efforts to reduce backlogs have not been effective. At March 2002, approximately 99,000 criminal charges had been pending at the Ontario Court of Justice for more than eight months. This was 39,000 more than in 1998.
- The Ministry invested approximately $21 million in the Integrated Justice Project to develop new information systems. However, the project was terminated five years after its establishment with little improvement to the courts' antiquated computer and information systems.
- The lack of ministry effort to collect millions of dollars in outstanding fines weakens the credibility of the justice system.

Other concerns noted during our current audit included:

- Controls over the planning, contractor selection, and project management for capital projects were inadequate. In one case, for example, a contractor was originally hired for $52,000 to remove mould, on an emergency basis, at one large courthouse. However, further examination of the courthouse revealed the need to address other significant building deficiencies. This primary contractor eventually received payments of almost $24 million; but in spite of increases in the scope and extent of the work and significant cost escalations, competitive quotes were not obtained from other contractors.
- Numerous significant deficiencies and inconsistencies in the level of security at courthouses across the province were noted both by a ministry consultant and during our visits to courthouses.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take action to address our concerns.

3.02 Ministry of Community, Family and Children's Services Children's Mental Health Services

The Children's Mental Health Services program funds transfer-payment agencies that provide services to children and/or the families of children who have social, emotional, or behavioural problems or psychiatric disorders. Under provisions of the *Child and Family Services Act*, approximately 250 community-based agencies are funded. The types of services offered include assessment, psychiatric therapy, counselling, crisis intervention, and skills training and education, as well as residential-based services (mental health services offered in a residential setting) to children who require more intensive assistance.

Children's Mental Health Services expenditures have increased substantially since the time of our last audit, from $213 million in 1996/97 to $315 million in 2002/03. However, most of this increase has been spent on several new initiatives in the last two years that in most cases provide intensive services to relatively few individuals with complex special needs.

We concluded that the Ministry was not adequately monitoring and assessing the quality of the services provided by the community-based agencies it was funding. As a result, the Ministry could not be assured that vulnerable children in need were receiving the care and assistance they required. More specifically, we found that the Ministry:

- had not established service quality standards and service evaluation criteria to help ministry staff monitor whether or not services were of an acceptable quality and represented value for money spent;
- had not established waiting-time standards for access to service that were reasonable and commensurate with individual children's needs, and was not monitoring the extent and impact of lengthy waiting times for service; and
- was not receiving or assessing information from agencies about the outcomes of the services they were providing.

We also found that the Ministry's funding decisions were not based on sufficiently detailed and relevant financial and operational information from agencies to ensure that the amounts approved were commensurate with the demand for, and level and quality of, services to be provided.

Our findings were of particular concern because many dealt with issues we had previously raised in our 1997 audit of the program. Although the Ministry agreed with the recommendations in that audit and agreed to implement the necessary corrective action, progress has been less than satisfactory.

We note that the Ministry again agreed with our recommendations in this audit and committed to take the necessary corrective action.

3.03 Ministry of Community, Family and Children's Services Family Responsibility Office

Under the authority of the *Family Responsibility and Support Arrears Enforcement Act, 1996*, the Family Responsibility Office (Office) administers and enforces all court-ordered child and spousal support in Ontario, as well as court-ordered support in many other jurisdictions where the payers are resident in Ontario. The Office also enforces private separation agreements that are voluntarily registered with a court and filed with the Office. At the time of our audit, the Office was administering approximately 180,600 family-support cases.

During the 2002/03 fiscal year, the Office collected approximately $561 million from support payers and forwarded a similar amount to support recipients. However, as of the end of that same year, payment arrears totalled approximately $1.3 billion, which represented an 8% increase since our 1999 audit. We also noted that approximately 23,000 support recipients, whose cases were in arrears totalling over $200 million, were receiving provincial social assistance.

It is our view that unless the Office takes aggressive enforcement action, supported by effective case management and significantly improved information technology and communications systems, it is in grave danger of failing to meet its mandated responsibilities. Our specific findings included the following:

- Since 1994, the number of caseworkers has declined by 20%, whereas the number of cases has increased from 126,000 to 180,000, with the result that the average number of cases per caseworker has steadily increased. For example, the average number of cases with outstanding work items assigned to senior caseworkers has been ranging from 600 to more than 1,300, averaging 890 cases per caseworker.
- The Office's practice of commencing enforcement action only after being notified by recipients of non-payment resulted in unreasonable delays in enforcement. On average, seven months elapsed between the time support fell into arrears and the time the Office initiated the first enforcement action.
- More than half the cases in arrears we reviewed had inordinately long gaps—often as long as two years—between enforcement actions.

Staff efforts to enforce support obligations and to provide responsive client services continued to be significantly hampered by the Office's inability to develop and implement the necessary improvements to its computer system. Although the Office indicated as far back as 1994 that the current computer system must be replaced, the same computer system continued to be used even though it cannot provide timely and appropriate information to facilitate client service or management of the program.

We also found that almost 90% of telephone calls made from outside the Greater Toronto Area to the Office's call centre were blocked and therefore not answered. As a result, clients had to call repeatedly in order to get through.

We made a number of recommendations for improvement and received commitments from the Office that it would take action to address our concerns.

3.04 Ministry of Consumer and Business Services Policy and Consumer Protection Services Division

The mandate of the Policy and Consumer Protection Services Division (Division) of the Ministry of Consumer and Business Services is to oversee business and other practices in the Ontario marketplace. The Marketplace Standards and Services Branch, which accounts for approximately two-thirds of the Division's expenditures, administers various statutes relating to consumer protection and business licensing. Its activities include the registering and licensing of a number of industries, processing consumer complaints, inspecting businesses for compliance with consumer protection acts, and investigating alleged infractions.

Since 1997, the Ministry has also delegated the administration of several consumer and public safety statutes in such sectors as amusement devices, boilers, elevators, fuels, electricity, and new home warranties to eight delegated authorities. The delegated authorities are not-for-profit corporations that carry out the day-to-day functions of ensuring public safety and consumer protection by regulating and monitoring business practices in their industry. Nevertheless, the Ministry retains overall responsibility for the outcomes of the delegated authorities' activities in protecting the consumers and the public. The Division's Sector Liaison Branch is responsible for overseeing the eight delegated authorities.

In the 2002/03 fiscal year, the Division had approximately 100 staff and operating expenditures of approximately $9.7 million.

We found that the Marketplace Standards and Services Branch (Branch) did not deploy its inspection resources based either on an assessment of risk or on the number of complaints it received. For example, while the practices of debt collectors had been the number one source of complaints and inquiries received by the Branch, with a total of approximately 4,000 received in 2001/02, the Branch conducted fewer than 10 inspections of collection agencies. In contrast, although the Branch received only eight complaints about theatres and video retailers, the Branch devoted 95% of its inspection resources and conducted 1,600 inspections to check whether video retail stores were operating with a valid licence and were selling adult videos only with proper stickers indicating their ratings.

With respect to the delegated authorities, we noted that:

- The Ministry had not ensured that data on the outcome of delegated authorities' activities, as reported by them—such as the number of safety-related incidents and the number of serious injuries—were reliable.
- The Ministry had not assessed the sufficiency and appropriateness of the enforcement activities undertaken by the delegated authorities in response to identified violations.
- The Ministry was unable to obtain adequate information about the outcomes and activities of the Ontario New Home Warranty Program to assess whether new homeowners were being properly protected.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take action to address our concerns.

3.05 Ministry of Education
Curriculum Development and Implementation

The *Education Act* gives the Minister of Education broad authority over the "courses of study that shall be taught" to the province's 1.4 million elementary and 700,000 secondary students in its 4,000 elementary and 800 secondary schools.

Prior to 1996, school boards had considerable latitude regarding the curriculum that they taught. In 1996, however, the Ministry of Education undertook, for the first time, the development of a province-wide curriculum. The Ministry began introducing the new curriculum in September 1997 and completed its development work with the introduction of the grade 12 curriculum in September 2002. The Ministry estimated that the costs of developing and implementing the new curriculum between 1996 and January 31, 2003 were about $488 million.

We concluded that the process by which the Ministry developed the new curriculum was appropriate, and according to most of the educators we interviewed, it resulted in a good-quality product that was an improvement over what they had before.

However, the educators we interviewed expressed concerns regarding the way the curriculum was implemented. Their major concern was that the Ministry rushed the implementation, with the result that a new curriculum and changes in student assessment practices were introduced before appropriate training, textbooks, and other materials were readily available. This made the initial years of implementation extremely difficult for students and teachers.

Educators also expressed concerns about the suitability of the new curriculum for weaker students. Recent studies and test results indicated that many students are still not succeeding under the new curriculum and that many students are entering secondary school without the educational foundation required to graduate.

We also concluded that the Ministry and the school boards we visited did not have sufficient and reliable information to, for example:

- measure and report on the extent to which students have learned the new curriculum in grades and subjects other than those that have been tested province-wide;
- measure the extent to which consistency in student assessment has been achieved among the province's schools; and
- identify and prioritize the problems underlying poor student achievement; develop viable improvement plans; and track and report results.

We made recommendations for improving curriculum implementation processes and the Ministry committed to taking corrective action.

3.06 Ministry of Enterprise, Opportunity and Innovation Business and Economic Development Activities

The Ministry of Enterprise, Opportunity and Innovation was created on April 15, 2002, with the amalgamation of the science and technology activities of the former Ministry of Energy, Science and Technology with the business and economic development activities of the former Ministry of Economic Development and Trade. The new Ministry's mandate is to foster an Ontario with competitive businesses and a prosperous economy by promoting innovation, economic growth, and job creation. In the 2002/03 fiscal year, the Ministry employed 300 staff and spent $78.9 million to carry out its business and economic development activities.

We concluded that the Ministry did not have the necessary strategic planning processes and information systems to support training institutions in addressing skills shortages and to assist Ontario businesses in expanding their export potential. For example, we noted the following:

- The Ministry had not evaluated the Strategic Skills Investment program to determine whether the program was successful in addressing the current and anticipated skills needed to ensure business competitiveness in Ontario and to ensure that students obtained employment in their respective areas of training.
- The Ministry had not developed methods to measure the extent to which it had achieved its objective of promoting innovation, economic growth, and job creation. Instead, the Ministry tended to assess performance by measuring activities; for example, it assessed export trade performance by monitoring the number of clients assisted rather than by determining whether any increases in export trade had actually occurred as a result of ministry activities.

We found that the Ministry's advertising and marketing campaign to encourage investment in the province was well planned and that appropriate research was carried out to support the development of a focused marketing plan.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take action to address our concerns.

3.07 Ministry of Enterprise, Opportunity and Innovation Science and Technology

The goals of the Ministry of Enterprise, Opportunity and Innovation are to promote innovation, economic growth, and job creation. To help achieve these goals, the Ministry funded several major science and technology programs and spent $1.3 billion between April 1, 1998 and March 31, 2003. The government announced total program commitments of $4.3 billion.

During our audit, we did not receive adequate access to all the information we requested from the Ministry—information that the Ministry must provide to us under section 10 of the *Audit Act*. Such limitations on our access to information prevented us from being able to conclude on our audit objectives. Nevertheless, we noted a number of concerns as follows:

- The Ministry has paid the Ontario Innovation Trust $750 million to support the capital cost of research in Ontario, but the Ministry receives virtually no information from the Trust and does not have the required monitoring processes in place to hold the Trust accountable for its expenditure of public funds.
- The Innovation Institute of Ontario (IIO)—a non-profit corporation that administers the Ontario Research and Development Challenge Fund—often disposed of research-proposal assessments without the required written consent from the Ministry.
- We recalculated a sample of 2001/02 Ontario Research Performance Fund grants and found that one institution was underpaid by $277,000 and another was overpaid by $147,000. We notified the Ministry of these errors, which were subsequently corrected.
- We found that the marks on the Ministry's summary of the Premier's Research Excellence Awards competition did not agree with the reviewers' original score-sheet marks. Such findings limit the Ministry's ability to demonstrate the fairness of the selection process.
- A review of the minutes from advisory board meetings where research proposals were recommended for funding revealed occasions on which a conflict of interest should have been declared, but there was no indication in the minutes that a conflict had been declared.
- In July 2000, the Ministry single-sourced the administration of the Ontario Research and Development Challenge Fund to the IIO. According to ministry documents, the Ministry did not issue a request for proposals (RFP) because once an RFP is out, anyone who is eligible must be treated fairly in the process, and problems could arise if a bidder was not dealt with fairly. This contradicts the basic principles of government procurement.
- The Ministry measured its performance in terms of the expected growth in the value of non-government-sponsored research over the next five years. This measure is future oriented and does not reflect the ongoing impact of the Ministry's expenditures to date.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take action to address our concerns.

3.08 Ministry of the Environment Environet

The Ministry of the Environment has a broad mandate to restore, protect, and enhance Ontario's environment. It works to ensure cleaner air, water, and land, and healthier provincial ecosystems, through a number of acts and associated regulations, including the *Ontario Water Resources Act* and the *Environmental Protection Act*.

In 2000, the Ministry developed a new information technology vision and strategy, called Environet, to strengthen the delivery of its environmental programs. At the time of our audit, the Ministry had spent approximately $17.1 million developing the four Environet management information systems we reviewed.

We concluded that, at the time of our audit, the Ministry's Environet systems did not provide ministry staff with the information needed to support the Ministry's responsibilities of ensuring that drinking water meets regulatory standards, that hazardous waste movements are properly controlled, and that all air emissions are monitored and reported where required. Our major findings were:

- Total inspection activity is currently at 73% of 1995/96 levels, and inspectors are averaging fewer inspections annually. Given the significant increase in the number of facilities now covered by new regulations, the Ministry needs to develop a strategy to deal with these new facilities. For example, last year inspectors visited only 54 of the 357 private, drinking water treatment plants and 44 of the 1,119 smaller plants and designated facilities.
- Three hundred of 1,476 registered non-municipal waterworks had never submitted any test results to the Ministry, and 612 (27%) of registered waterworks had not submitted the minimum number of water samples for two of the highest-risk substances, *E. coli* bacteria and fecal coliform.
- Although exceedances (water samples with unacceptably high concentration levels of regulated substances) were only a small proportion of the total samples submitted to the Ministry, we did identify 6,725 exceedances since 2001. Of these, 3,181 were Adverse Water Quality Incidents, which are more serious exceedances that can affect human health. Ministry systems and procedures did not ensure that all Adverse Water Quality Incidents were reported and addressed. For example, the Ministry was not aware of 31 out of 46 Adverse Water Quality Incidents that had occurred at one waterworks.
- Less than 1% of the province's hazardous waste movements were monitored by the new hazardous waste information system. An older, inefficient paper-manifest system was still being used to handle almost all transactions because the new system could not accept paper submissions. We also noted no evidence of follow-up action on over 5,000 unauthorized hazardous waste movements flagged by the system.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take action to address our concerns.

3.09 Ministry of Health and Long-Term Care Public Health Activity

Under the direction of the Chief Medical Officer of Health, the Ministry's Public Health Branch is responsible for administering the Public Health Activity. The primary legislative authority governing the Activity is the *Health Protection and Promotion Act*. During the 2001/02 fiscal year, the Ministry provided approximately $222 million to 37 local health units, primarily for the delivery of mandatory health programs and services.

We concluded that the Ministry did not have adequate procedures to ensure that its expectations for public health were being met in a cost-effective manner. In particular, we were concerned that the Ministry had not analyzed the extent to which individuals received differing levels of service depending on where in Ontario they live. For instance, in 2002, per capita funding for mandatory health programs and services ranged from approximately $23 to $64 among the 37 local health units.

The Ministry had conducted virtually no regular assessments in the last five years to determine whether the health units were complying with the guidelines for mandatory programs and services. Such assessments were recommended in the *Report of the Walkerton Inquiry*. We also noted the following:

- Of the 33 local health units reporting information to the Ministry, 13 had conducted the required inspections for less than 50% of the high-risk food premises within their jurisdiction. Also, 17 health units reported that less than half of the high-risk food premises in their jurisdictions had food handlers who had the required training.
- In 2001, local health units inspected only approximately 60% of Ontario's tobacco vendors to verify compliance with the Mandatory Programs and Services Guidelines regarding sales to people under the age of 19.
- In 2001, only 65% of individuals identified as requiring medical surveillance for tuberculosis were successfully contacted and managed by local health units. Also, we were informed that nine local health units would provide a letter for immigrants with inactive tuberculosis to verify that the individuals were complying with federal medical surveillance requirements. However, the units would provide this letter even if the individuals had not had a physical examination and x-ray, which federal guidelines state should be administered to such individuals. This places the community at increased risk.
- The limited information the Ministry had with respect to immunization indicated that at least 14% of children had not had all required vaccinations by age seven.
- The Ministry lacked accurate and timely information on communicable diseases and immunization, limiting its ability to identify and take any necessary action.
- The Ministry had not yet developed a process to ensure that local health units were conducting risk assessments of and taking appropriate action against West Nile virus.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take action to address our concerns.

3.10 Ministry of Training, Colleges and Universities Ontario Student Assistance Program

The Ontario Student Assistance Program (OSAP) is a provincially administered and federally and provincially funded program that provides needs-based financial assistance to full-time students to enable them to attend an approved postsecondary school. The objective of OSAP is to help students from lower-income families meet the costs of postsecondary education so that all qualified students can have access to postsecondary education.

Provincial financial assistance to students is provided primarily by loans under the Ontario Student Loans (OSL) program. The Ministry also administers the Canada Student Loan (CSL) program and the Canada Millennium Bursary (CMB) on behalf of the federal government.

For the 2002/03 fiscal year, provincial OSAP expenditures totalled $356 million. These expenditures include default claims on loan guarantees, loan forgiveness grants, interest subsidies while students are attending school, interest relief during the repayment stage, and various need- and merit-based bursaries and scholarships.

We concluded that, since our last audit in 1997, the Ministry has taken action to address a number of our recommendations and significantly improve the overall administration of the program. Notwithstanding, there are several areas where further action is required. In particular:

- The Ministry has paid about $2 million more annually in interest costs and risked at least $6 million more in annual default costs than it should have because: some loan advances to students are paid earlier than necessary; the Ministry has lenient repayment policies for loan overpayments; and there was a lack of effective monitoring of academic status changes by postsecondary schools, which also caused the Ministry to pay loan forgiveness grants to students who were not eligible to receive them.
- Our own analysis to identify instances and patterns of reporting errors or abuse by students revealed unlikely circumstances that the Ministry ought to have questioned, such as students or parents reporting in their applications an increase of three or more dependent children from the previous year.
- The Ministry could further reduce the cost of defaulted student loans by several million dollars by making greater use of default management practices successfully employed in other jurisdictions. It had also not referred at least 60,000 additional defaulted loans on which collection efforts had been unsuccessful to the Canada Customs and Revenue Agency, which would have collected the outstanding amounts from any future income tax refunds owing to the individuals with the defaulted loans.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take action to address our concerns.

CHAPTER TWO

Towards Better Accountability

Chapter Two of our report is used to address specific issues of accountability and governance in government. This year, the chapter focuses on our long-standing efforts to have the *Audit Act* amended and discusses two areas critical to enhancing accountability of the government—public reporting on performance and strengthening the modern controllership function.

PROPOSED AMENDMENTS TO THE *AUDIT ACT*

The *Audit Act* authorizes the Provincial Auditor to bring to the attention of the Legislature any cases where "money was expended without due regard for economy or efficiency" and where procedures "to measure and report on the effectiveness of programs" were not established. These provisions encompass our value-for-money mandate.

Since 1989, our Office has pursued amendments to the *Audit Act*. The primary reason for the proposed amendments is to allow the Provincial Auditor to conduct value-for-money audits of organizations that receive grants from the province such as community colleges, universities, hospitals, and school boards. Given that grants to organizations represent about 50 % of total government expenditures, we believe our Office needs to have our value-for-money audit mandate extended to these expenditures if we are to assist the Legislature in fully ensuring that the government is accountable for its stewardship of public funds. The current *Audit Act* allows the Provincial Auditor to examine only the accounting records of such organizations, effectively limiting the scope of our work to financial and compliance matters and thereby preventing us from conducting full-scope value-for-money audits.

On April 11, 2003, the then Provincial Auditor wrote the following letter to the Premier of Ontario to pursue the *Audit Act* amendments we believe are necessary.

Dear Premier Eves:

The purpose of this letter is to express my Office's unwavering interest in the government taking action on the amendments to the *Audit Act* unanimously approved by the Standing Committee on Public Accounts in November 2002. These amendments incorporate the government's commitment to amend the *Audit Act* as outlined in the government's 2001 Speech from the Throne. The proposed amendments are principally designed to permit my Office to better serve Ontario's Legislative Assembly and enhance public accountability of the broader public sector.

As you know, for many years my Office, with the unanimous support and repeated recommendations of the Standing Committee on Public Accounts, has been requesting amendments to the *Audit Act*. The most significant amendment that we have proposed would provide the Provincial Auditor with the discretionary authority to perform full-scope value-for-money audits of organizations that derive a very significant portion of their income from provincial grants - such as school boards, hospitals, community colleges, and universities. Incidentally, the magnitude of provincial grants to these and other organizations is in excess of $30 billion annually. In 1996, when you were Minister of Finance, you indicated in a letter to the then Chair of the Standing Committee on Public Accounts that you agreed with the principles upon which our proposed amendments are based.

Over the years, there have also been several private members' bills introduced incorporating the main thrust of our proposed amendments as well as those proposed by the government in its 2001 Throne Speech. The bill that progressed the furthest was Bill 5, which was entitled: *An Act to amend the Audit Act to insure greater accountability of hospitals universities and colleges, municipalities and other organizations which receive grants or other transfer payments from the government or agencies of the Crown.* Bill 5 was considered during the last session of the Legislature and represented the culmination of considerable work carried out over more than a decade by my Office and the Standing Committee on Public Accounts, including extensive public hearings. In November 2002, the Public Accounts Committee unanimously amended and approved Bill 5 and reported it to the Assembly for third reading. On December 6, 2002 I wrote to the three House Leaders to urge them to consider swift passage of Bill 5 before the House was set to rise on December 12, 2002. However, to my disappointment, Bill 5 was never called for third reading.

I would be pleased to arrange a meeting with you or your designate to discuss the benefits of making the proposed amendments to the *Audit Act*, which have received public hearings and repeated unanimous endorsements by the Standing Committee on Public Accounts.

Sincerely,

Erik Peters, FCA
Provincial Auditor

We did not receive a response to our letter of April 11. Nevertheless, and in spite of the repeated setbacks we have experienced over the years in our efforts to have the *Audit Act* amended, the Office remains committed to pursuing amendments to the Act so that we may better serve the Legislative Assembly.

PUBLIC REPORTING ON PERFORMANCE

Public reporting by government ministries on their performance is intended to inform legislators, public servants, and other decision-makers about the extent to which programs and services are providing value to the public. Such reporting thus serves as a mechanism for accountability and a vehicle to help drive change and focus attention on results as opposed to activities and processes. The usefulness and value of performance measurement and reporting is reflected in its growing importance to governments around the world in recent years.

Our interest in performance reporting is driven by subclause 12(2)(f)(v) of the *Audit Act*, which requires that the Provincial Auditor report on instances where procedures to measure and report on program effectiveness have not been established or were not satisfactory. In other words, the Auditor is to report on whether the government is adequately measuring and reporting on its performance. When we report on performance, we also make recommendations on how performance measures and reporting can be improved. Our recommendations might specify, for example, the kinds of performance information that decision-makers and stakeholders ought to have available to support good decision-making and accountability.

Over the years, we have found it necessary to report many instances where the government's measuring of and reporting on the efficiency and effectiveness of its programs was insufficient. In fact, our Office has been an advocate for improvements in this area as far back as 20 years ago. In our *1983 Annual Report*, for example, we made several observations regarding the need for improved performance reporting by grant recipients such as hospitals, school boards, and sports governing bodies. Again this year, in many of the Chapter Three sections in this Report, we make a number of recommendations relating to the need to improve program performance reporting.

Notwithstanding our frequent recommendations over the years, we do acknowledge that progress is being made. Particularly in recent years, the government has made strides in enhancing both the public reporting of performance measures and the use of performance measures by program management to help focus efforts and expenditures on the achievement of results.

A very significant step in performance reporting was taken in May 1996 when, in response to recommendations of the Ontario Financial Review Commission and the Provincial

Auditor, the government published Ontario's first business plans and committed to continue publishing the business plans annually. The business plans would include a presentation of the results achieved during the year as well as targets, goals, and objectives for the next year.

The process of business planning and public performance reporting that was begun in 1996 was further improved in 2000, when Management Board Secretariat issued the "Business Planning and Allocations Directive" in April and, in December, a companion guideline entitled "Performance Measurement In the Business Planning Process—A Reference Guide for Ministries." These documents have provided valuable guidance to ministry management and staff as they have endeavoured to enhance their reporting of performance, with a particular focus on the outcomes being achieved by significant government programs.

Because of our mandated interest in the subject of performance measurement and the fact that the Ontario government has been publishing business plans for eight years, we felt that it would be worthwhile and timely to review the guidance provided by Management Board Secretariat. As a benchmark, we used the performance-reporting principles recently developed and published by the Canadian Comprehensive Auditing Foundation (CCAF). CCAF is a national, non-profit research and educational group that has recently developed performance-reporting principles for governments in consultation with legislators, senior government officials, and legislative auditors across Canada. The principles are contained in a CCAF report entitled *Reporting Principles—Taking Public Performance to a New Level*, released in December 2002. The CCAF report explains the importance of reporting principles as follows:

> Agreement of principles is an essential step toward confidence in reporting. Principles help reporters [those reporting performance] make good judgments and give them grounds for confidence that their judgments will be fairly received. They give users grounds for confidence that the judgments exercised in reporting are fair, neither arbitrary nor self-serving.
>
> Principles also shape the evolution of reporting: they point the way to what reporting could and should be. They start out as ideals, the ceiling that reporting aspires to reach. Over time and with growing acceptance, they become standards, the floor below which reporting may not sink.

To date, the principles developed by CCAF have been endorsed by senior public servants and the legislative audit community across Canada. For instance, the provinces of British Columbia and Saskatchewan have officially adopted CCAF's performance-reporting principles as the model for how they will improve public performance reporting.

The following chart lists the nine CCAF performance reporting principles and indicates the extent to which Management Board's current guidelines incorporate these principles:

Degree of Incorporation of CCAF Principles in Management Board Secretariat's Performance Reporting Guidelines

CCAF Principle	Incorporated	Partially Incorporated	Not Incorporated
Focus on the few critical aspects of performance.	✓		
Look forward as well as back.	✓		
Explain key risk considerations.			✓
Explain key capacity considerations.			✓
Explain other factors critical to performance.			✓
Integrate financial and non-financial information.		✓	
Provide comparative information.	✓		
Present credible information, fairly interpreted.		✓	
Disclose the basis for reporting.			✓

Prepared by the Office of the Provincial Auditor

We acknowledge that the CCAF's performance reporting principles have only recently been published. Accordingly, it is not unexpected that some of the recommended principles are not included in Ontario's current performance-reporting guidelines. However, we do recommend that over the next few years, as ongoing refinements to the guidelines are made, the four principles not yet included be considered in future revisions of the guidelines and that ministries be encouraged to implement them as soon as possible. The four principles not yet incorporated are described as follows:

- *Explain key risk considerations*—Risk relates to the uncertainty of future events and their possible impact on the achievement of goals. By identifying key strategic risks and their influence on policy choices and performance expectations, a performance report helps the reader to relate results achieved to the level of risks accepted.

- *Explain capacity considerations*—Capacity refers to the ability of an organization to achieve a given level of results. Capacity considerations often significantly influence decisions about strategic directions, goals, and resource allocations. By explaining capacity considerations, a performance report helps the reader to understand and interpret an organization's achievements and plans.

- *Explain other factors critical to performance*—Other factors that can affect the achievement of targeted results include changes in economic, social, demographic, or environmental conditions, as well as the actions of other jurisdictions or organizations external to the government. The greater the impact these factors have on performance, the more important it is to describe that impact.

- *Disclose the basis for reporting*—Since performance reports should focus on a few critical aspects of performance rather than present volumes of information, it is especially important to tell the reader why the reported measures were selected and how they relate to the overall strategic direction of the entity.

Fully implementing Management Board's business-planning and performance-reporting guidelines across all ministries and improving on these guidelines is an ongoing process. It is encouraging to see the progress that has already been made in the public reporting of the government's performance. Nevertheless, in these days of constrained resources, increased delegation of responsibilities, complex service-delivery relationships, and rapid and constant change, the need for clear, credible, and timely performance reporting has never been greater.

ONGOING CONTRIBUTIONS FROM THE LEGISLATIVE AUDIT COMMUNITY

The Canadian Council of Legislative Auditors (CCOLA) is an organization of legislative auditors from the federal government and the provinces that meets periodically to share ideas and exchange information. CCOLA has been very active in the development of CCAF's performance-reporting principles.

In 1997, CCOLA established a Performance Reporting and Auditing Group to study and make recommendations on ways to advance the quality and usefulness of government performance reports. The Group developed a draft set of reporting principles and provided advice to CCOLA and CCAF as the CCAF principles were being developed. Recently, the Group has focused on the development of audit criteria and programs for interpreting and providing assurance on published performance information.

STRENGTHENING THE MODERN CONTROLLERSHIP FUNCTION

OVERVIEW

A controllership function is common in most large organizations that maintain accounting records and use those records to produce financial information for decision-makers. Webster's dictionary defines a Controller as the chief accounting officer of a business enterprise or an institution. In addition to their accounting role, controllers are also responsible for establishing a good system of internal control to ensure that information produced by the accounting system is timely, relevant, reliable, comparable, and understandable.

Public-sector controllers have historically focused primarily on establishing basic accounting systems and financial controls to, for example, ensure that government spending is within the levels approved by the Legislature. However, over the last decade there have been a number of initiatives at the federal and provincial government level to expand this traditional role of the controller.

For instance, in 1996, the federal government acknowledged that the modernization of the controllership function was key to improving the performance of government. To help achieve this, a federal panel known as the Independent Review Panel on Modernization of Comptrollership in the Government of Canada was established. The Panel issued a report identifying four key elements of modern controllership:

- integrated performance information;
- appropriate control systems;
- a sound approach to risk management; and
- a shared set of ethical practices and organizational values.

The Panel also stated that the single most important change needed was a move to a new guiding philosophy for controllership. Essentially, the culture of controllership had to move from a "command/control" orientation to a "loose-tight" orientation that would combine a strong commitment to centralized standards and values designed to achieve planned results with a flexible approach to processes and operating results.

DEVELOPMENTS IN ONTARIO

Our Office has long advocated the need for improved information for decision-makers and better measurement and reporting of government program performance. We have also advocated the need for a strong controllership function as a key means to achieving these objectives. For example, in 1993, we played an instrumental role in assisting the government's move from producing narrowly focused financial statements that reported on the modified cash basis of accounting to more comprehensive accrual-based financial statements that consolidated all of the organizations that were accountable to the Legislature and owned or controlled by the government. In 1993 we also stressed the need for a governmental annual report that would contain not only the audited financial statements but also understandable information on the government's fiscal performance. In addition, for many years we have recommended that the government adopt the same basis of accounting for the Budget and the Estimates as that used in the financial statements and that it enhance the Estimates review process by taking performance information into consideration during the review process.

Over the years, the government, largely through the Ministry of Finance, has responded positively to many of our recommendations. Significant progress has been made in the area of improved financial reporting, in terms of both financial statements and the related Budget and Estimates processes. Progress is also being made in developing and implementing the key elements of modern controllership in Ontario. Some of the more recent initiatives in this regard include the following:

- In 1999, in response to the global shift to a more results-driven culture in the public service, Ontario established a task force to review the controllership function. Particular emphasis was placed on reviewing the role of a ministry chief financial officer. The review recognized that a modernized controllership function could improve decision-making by establishing processes for the strategic use of financial and performance information and for the management of risks within acceptable levels.

- In 1999, both Management Board Secretariat and the Ministry of Finance initiated a risk-management review process that ultimately resulted in the development of a Risk Management Framework, a "how-to" guide, and a Risk Management Policy. By managing risk systematically, managers can increase the likelihood that programs and activities will meet their desired objectives. Since the guide was released, a number of courses have been provided to train government managers and staff in improving risk management practices, controls, and governance processes.
- In 2000, the government implemented a Controllership Capacity Check self-assessment tool (the tool had originally been developed for the federal government). The tool enabled senior ministry management to assess their controllership practices in seven key areas against the best practices of other leading organizations. In 2000, ministries completed the self-assessments and developed action plans to improve the controllership function in their organizations.
- In 2000, a Modern Controllership Training Unit was created in the Fiscal and Financial Policy Division of the Ministry of Finance to help public servants upgrade their financial skills. Courses offered through the unit cover all aspects of modern controllership, including risk management, values and ethics, accounting practices and policies, and integrated decision-making. Courses are designed for and suited to staff at every level up to and including deputy ministers. Since its creation, the unit has provided approximately 7,500 days of staff training.
- In 2001, an Intranet Web site was launched to help educate the entire public service on modernized controllership. The site provides users with detailed information on modern controllership initiatives and government accounting policies and practices, as well as a listing of available courses.
- In 2002, the government began the roll-out of its new Integrated Financial Information System (IFIS). This government-wide system will replace numerous separate and unrelated financial systems that were in use by different ministries across Ontario. IFIS is a key component of the government's modern controllership initiatives and is intended to:
  - allow for better estimation of the full cost of government activities, thus improving the planning and resource-allocation process;
  - put all ministries on the same accrual accounting basis, ending the need for manual adjustment or reconciliation of data from incompatible financial systems across the government;

  - support the standards for accrual accounting and for capitalization of long-term assets recommended by the Canadian Institute of Chartered Accountants' Public Sector Accounting Board;
  - give decision-makers better and faster access to in-year information; and
  - support more timely preparation of the government's financial statements.
- In 2003, the Ministry of Finance published *A Guide to Financial Policies and Practices in Ontario*. The guide was written in plain English for non-financial decision-makers to help them understand the major changes being undertaken in the government's budgeting, planning, accounting, and reporting practices.
- By 2004, all government accounting systems will operate on the accrual basis. As a result, the Budget, the Estimates, the appropriation control system, and the financial statements and the Public Accounts for the 2003/04 fiscal year will, for the first time, all have been prepared using the same comparable basis of accounting.

THE WAY AHEAD

While we are encouraged by the progress made to date in modernizing the controllership function, much remains to be done. To realize a full return on its investment in modern controllership, the government must successfully make further advances, including the following:

- The culture of the Ontario Public Service must be changed to one where management thinks and behaves in "accrual" terms rather than in "cash" terms. Beyond asking, "How much money can I spend this year?", management should also ask, "What government resources will I need to deliver this program this year, and are the benefits to the public worth these resources?"
- The government must ensure that individual ministries fully adopt the modern controllership approach, in which resources are managed wisely and with due regard for economy, efficiency, and effectiveness. Management at ministries must develop effective risk-mitigation strategies and a proper internal-control environment and must ensure that staff have the information they need to enable them to make informed decisions on where and how government resources should be committed.
- The government must ensure that IFIS is implemented smoothly and is both sufficiently controlled and sufficiently flexible to produce relevant and reliable government financial and operating information for decision-makers.

These advances will not be possible if controllership is delegated solely to financial specialists. Successful modernization of controllership across the hundreds of programs of the Ontario government will depend largely on management adopting a "controllership mindset." In other words, a culture in which government managers and staff regularly act in accordance with the principles of modern controllership must be developed, under the leadership of the Ministry of Finance and senior program management throughout the government. Such a culture will help ensure that risks are managed, resources are used effectively, and the effectiveness of the public service is improved. In such a culture, ministries will be better able to account to the Legislature and to taxpayers for what they have accomplished with the resources entrusted to them.

Ultimately, a strengthened modern controllership will lead to better decision-making. As we have emphasized over the years, good decisions depend on appropriate, reliable, and timely information. Such information enables decision-makers to make good choices regarding how best to deliver government programs, how to reap the benefits of opportunities, and when to take corrective action when problems arise. Thus, ensuring that decision-makers have timely access to all the information they need may well be the most significant contribution the controllership function can make in the years ahead.

CHAPTER THREE

Reports on Value-for-money (VFM) Audits

Our value-for-money audits are intended to examine how well the government's programs and activities are being managed and whether they comply with relevant legislation and authorities and, where appropriate, to identify opportunities for improving the economy, efficiency, and effectiveness measures of their operations. These audits are conducted under subsection 12(2) of the *Audit Act*, which requires the Office to report on any cases observed where money was spent without due regard for economy and efficiency or where appropriate procedures were not in place to measure and report on the effectiveness of programs. This chapter contains the conclusions, observations, and recommendations for the value-for-money audits conducted in the past audit year.

Because of the size and complexity of the province's operations and administration, it is not practicable nor necessary to audit each program every year. Instead, the Office selects which programs and activities to audit on a cyclical basis, so that all major programs and activities are audited about every five years. The programs and activities audited this year were selected by the Office's senior management based on various criteria, such as a program's financial impact, its significance to the Legislative Assembly, related issues of public sensitivity and safety, and the results of past audits of the program.

We plan, perform, and report on our value-for-money work in accordance with the professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants.

Before beginning an audit, our staff meet with auditee representatives to discuss the focus of the audit. During the audit, staff maintain an ongoing dialogue with the auditee to review the progress of the audit and ensure open lines of communication. At the conclusion of the audit field work, a draft report is prepared, reviewed internally, and then discussed with the auditee. Senior office staff meet with senior management from the ministry or agency to discuss the final draft report and to finalize the management responses to our recommendations, which are then incorporated into each of the VFM sections.

3.01–Court Services

BACKGROUND

In Ontario the court system comprises three distinct courts: the Ontario Court of Justice, the Superior Court of Justice, and the Ontario Court of Appeal.

Approximately 97% of the 560,000 criminal charges tried annually are heard in the Ontario Court of Justice, which also tries certain family law cases. The Superior Court of Justice tries more serious criminal cases, family law matters, and civil matters including small claims. This court may also hear appeals of cases originating in the Ontario Court of Justice. The Ontario Court of Appeal hears both criminal and civil appeals. Judges in the Superior Court of Justice and the Ontario Court of Appeal are appointed and remunerated by the federal government; whereas judges and justices of the peace in the Ontario Court of Justice are appointed and paid by the province. We refer to the judges collectively as the Judiciary.

The Court Services Division (Division) of the Ministry of the Attorney General supports the operations of the court system through a network of approximately 250 courthouses and approximately 3,500 court support staff. Its primary functions include:

- providing courtroom staff—clerks, interpreters, and reporters;
- preparing enforcement documentation and enforcing orders, maintaining court records and files, and serving the public and the Bar;
- providing administrative and support services to the Judiciary, such as trial co-ordination, court statistics, caseflow management, and information technology; and
- collecting fines.

The Division's expenditures for the 2002/03 fiscal year were $302 million: $107 million for operating the offices of the Judiciary and for salaries and benefits for approximately 650 full- and part-time provincially appointed judges; and $195 million for all administrative and court staffing costs and for other expenses required to support the operation of courts. In addition, the Ministry spent $35 million on capital projects to modernize and improve court buildings. Revenues pertaining to court services, primarily from fines and court fees, were approximately $100 million.

AUDIT OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the Ministry and, where appropriate, the Ministry in conjunction with the Judiciary, had adequate systems and procedures in place to:

- ensure that the Division's resources and capital projects for courts were acquired and managed with due regard for economy and efficiency; and
- measure and report on the effectiveness of the Division's contribution to providing a fair and accessible justice system.

We identified audit criteria that would be used to address our audit objectives. These were reviewed and accepted by ministry senior management.

Our audit was conducted in accordance with standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The scope of our audit included interviews with ministry officials, as well as an examination of files and documentation at the Ministry's head office and visits to a number of regional offices and courthouses. We also followed up on the recommendations we made in our 1997 audit of court services.

We also contacted the Chief Justice of Ontario, on behalf of the Court of Appeal of Ontario; the Chief Justice of the Superior Court of Justice; and the Chief Justice of the Ontario Court of Justice (collectively referred to as the Chief Justices). The Chief Justices provided us with helpful comments and gave us their perspectives on the court system and the judicial support services provided by the Ministry.

We did not rely on the Ministry's Internal Audit Services Branch to reduce the extent of our work because they had not recently completed work within the scope of our audit.

Our audit fieldwork was substantially completed in March 2003. However, for reasons discussed in the following section, it was not until July 2003 that we were able to gain access to all the key documents needed to complete our audit.

ACCESS TO INFORMATION

The *Audit Act* requires the Provincial Auditor, in the annual report for each fiscal year, to report on whether the Auditor received all the information and explanations required to complete the necessary work. Section 10 of the *Audit Act* states that every ministry of the public service:

> ...shall furnish the Auditor with such information regarding its powers, duties, activities, organization, financial transactions and methods of business as the Auditor from time to time requires, and the Auditor shall be given access to all books, accounts, financial records, reports, files and all other papers, things or property belonging to or in use by the ministry... and necessary to the performance of the duties of the Auditor under this Act.

On this audit, we experienced significant delays in receiving several key documents. The Ministry had used these documents to obtain approval from the Management Board of Cabinet and from the Cabinet Committee on Privatization and SuperBuild (CCOPS) for new capital and program initiatives over the previous five years. It took Management Board Secretariat and the Ministry from three to five months after our initial requests were made in November and December 2002 to provide us with the documents requested. This happened despite many subsequent requests on our part to senior management at the Ministry.

In addition, when we did receive the documents, we noted that a number of deletions had been made. Following our inquiries regarding these deletions, on May 1, 2003, the Ministry informed us that deletions had been made to eight documents as the Ministry had a legal question about our statutory right to access all information and documents required for audit purposes. After discussions with the Ministry regarding the deletions, this legal matter was resolved, and a protocol was developed for dealing with this legal question in the future. In July 2003, all documents were provided to us by the Ministry in their entirety.

OVERALL AUDIT CONCLUSIONS

In our 1997 audit of what was then the Courts Administration Program, we noted that the successful implementation of a number of ongoing initiatives was needed to address the serious backlog of cases and deficiencies in the management of program resources. However, based on our current audit we concluded that little progress has been made since that time. The most significant concerns from our current audit were:

- At March 2002 the Ontario Court of Justice had the highest backlogs of criminal cases in 10 years.
- The Integrated Justice Project created to develop the required new information systems was terminated five years after its establishment, with virtually no improvement to the courts' antiquated computer and information systems.
- The lack of ministry efforts to collect millions of dollars of overdue fines continued.

We determined the current status of our 1997 concerns in this audit, and our conclusions are outlined in the following table.

Current Status of 1997 Audit Concerns

1997 Audit Concern	Current Status
The effective administration of the courts was hampered by the lack of a clear division of authority and responsibility between the Ministry and the Judiciary in the management and delivery of court services. In 1997, negotiations between the Ministry and the Judiciary to develop a plan for reform were in progress.	The Ministry was unable to achieve consensus with the Judiciary, and negotiations were therefore terminated.
Serious backlogs of criminal cases existed. New information systems and approaches were needed to help reduce backlogs.	Efforts to reduce backlogs have not been effective. Caseloads and pending charges in the Ontario Court of Justice had increased significantly. At March 31, 2002, there were approximately 99,000 criminal charges that had been pending for more than eight months. This was 39,000 more than in 1998.
Courts' information systems are antiquated, largely paper driven, and in need of automation. The Integrated Justice Project was initiated in 1996 to develop technological solutions and allow exchange of data among the various users in the justice system.	After the Ministry spent approximately $21 million on the Integrated Justice Project, the project was terminated. As a result, no substantial progress was made in introducing new information technology to the courts.
Adequate financial information systems to assess whether results were achieved at appropriate costs did not exist.	The Ministry still did not have any financial information systems, at either the corporate or regional level, that would allow management to monitor how cost effectively court services were delivered.
The Ministry, in conjunction with the Judiciary, needed to measure and report on its effectiveness in providing courts that are fair and accessible.	Performance measures were not established to measure and report to the public on the effectiveness and efficiency of courts, as demonstrated by, for example, waiting times for trials and court costs.
The Ministry did not ensure that the collection of overdue fines was vigorously pursued.	The Ministry made little effort to collect outstanding fines. At one point in 2002, more than two-and-a-half years had elapsed before the Ministry transferred outstanding fines to Management Board Secretariat's Collection Management Unit. The lack of collection efforts weakens the credibility of the justice system.

Our current audit also identified the following additional concerns:

- Controls over the planning, contractor selection, and project management for capital projects were inadequate. For example, a contractor was originally hired for $52,000 to remove mould at one large courthouse on an emergency basis. However, further examination of the courthouse also revealed the need to address significant building deficiencies on an urgent basis. This primary contractor eventually received payments of almost $24 million; but in spite of increases in the scope and extent of the work and significant cost escalations, competitive quotes were not obtained from other contractors. In another example, the estimated cost of $30 million to construct a new courthouse was about $9 million more than forecasted and 40% higher than for other similar projects. In yet another example, contrary to the Management Board of Cabinet directive requiring the use of the Ontario Realty Corporation and without seeking competitive tenders, the Ministry contracted directly with a project management company for construction work at a courthouse and paid this company $187,000, even though the Ministry was aware the work had not been started.

- A consultant's review of security risks completed in January 2003 identified numerous significant deficiencies at courthouses across the province. We also noted significant inconsistencies in the level of security during our own visits to courthouses.

DETAILED AUDIT OBSERVATIONS

ADMINISTRATIVE STRUCTURE OF THE COURTS

The Judiciary is independent of the administrative and legislative arms of the government. As part of its adjudication function, the Judiciary is responsible for the conduct of proceedings within its courtrooms. It directs the operation of courts, such as determining the dates of court sittings, the scheduling of cases, and the assigning of judges. While the Judiciary controls the use of court resources, the Ministry decides on court budgets, staffing decisions, courthouse capital projects, and the number of judges. It has long been acknowledged that this division of responsibilities can only be successful if there is a clearly defined accountability structure and a clear division of authority and responsibility between the Judiciary and the Ministry. However, the need for such a structure and division of authority and responsibility has not been successfully dealt with over the years.

In 1995, a joint Ministry and Judiciary study, entitled *Civil Justice Review—First Report*, concluded: "The justice system can no longer function effectively in Ontario unless a single authority, with clear lines of responsibility and accountability, is established to deal with all administrative, financial and budgetary, and operational matters relating to court administration in the Province."

In our *1997 Annual Report*, we recommended that in order for the justice system to function more effectively, the Ministry and the Judiciary needed to ensure that there be a reform of the management of court services that clearly established accountability and responsibility for achieving desired results. At that time, discussions were in progress to address this issue and a Framework Agreement was reached between the Ministry and the Judiciary to develop a plan for the reform of the management of court services in Ontario. Subsequently, however, the Ministry was unable to achieve consensus with the Judiciary, and the project was terminated.

During our current audit, the Ministry informed us that it was committed to "relationship building" with the Judiciary, in particular with respect to the management of operational issues. The aim was to encourage positive joint involvement in decision-making.

Although the Chief Justices considered the Court Services Division to be responsive to the needs of the Judiciary, they also cited areas where the Ministry's support services were not meeting the needs of the courts. In particular, they cited the issues of staffing, training, and security. We also noted several long-standing concerns in the judicial system that have not been resolved and might be more effectively dealt with by an improved administrative and accountability arrangement between the Judiciary and the Ministry. These concerns included backlogs, performance standards and measures, information technology, and court security, and are discussed in the sections that follow.

Recommendation

To help ensure that the justice system functions effectively and to improve the stewardship of funds provided to the courts, the Ministry and Judiciary should improve their administrative and management procedures by establishing:

- **a process of greater co-operation in decision-making that addresses long-standing concerns;**
- **a better structure of courts administration with greater accountability for achieving desired results such as reducing case backlogs.**

Ministry Response

The Ministry has undertaken to work with the Judiciary to build good relationships at all levels and to explore joint management of, and decision-making about, existing institutional challenges and ongoing operational issues. Joint working groups have been established to include representatives of both courts, as well as the bar and relevant agencies, to support ongoing identification and implementation of measures to address long-standing challenges such as backlogs.

Efforts to bring about joint management with the Judiciary are occurring on a number of fronts. For example:

- ***Members of the Judiciary have been involved since January 2002 in the Court Services Division's development of service standards and a five-year business plan for the Division. Further consultation will be conducted annually to review and update the plan. The establishment of service standards as part of the planning process will support greater accountability for the Division's delivery of court administration services.***
- ***Written standards for judicial support have now been established for the Superior Court, and standards for the Ontario Court will be completed this fiscal year.***

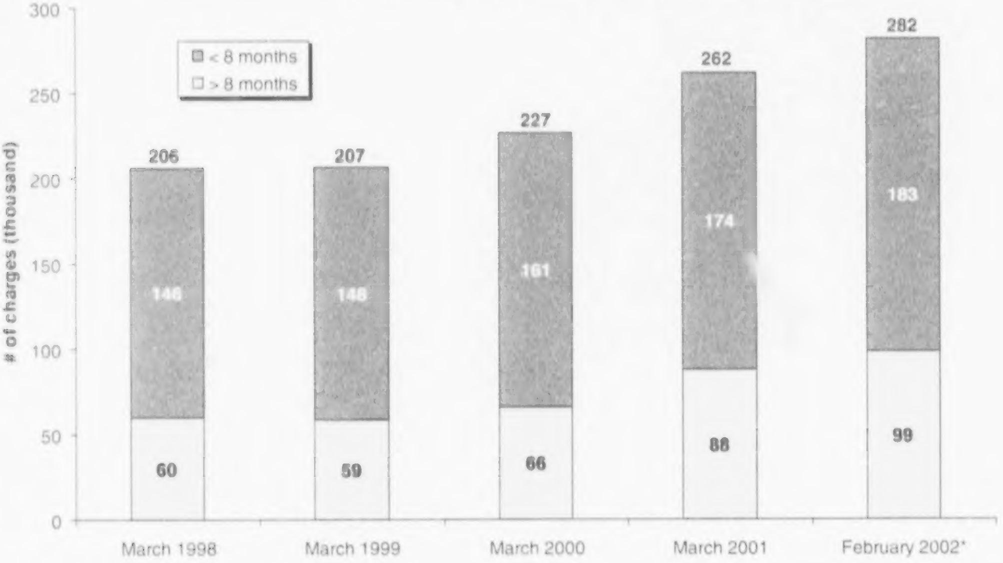
- ***The Chief Justice of the Ontario Court has asked the Division to participate in a process to develop a complement model for the Court.***

CASE BACKLOGS

The success of the judicial system is measured by its ability to fairly resolve disputes in a timely manner. In 1992, the Supreme Court of Canada provided a guideline of eight to 10 months as a reasonable period of time to allow for cases going to trial. The Ministry maintains statistics to show how many outstanding charges are older than eight months.

In 1993 and 1997, we reported that serious backlogs existed for criminal cases. As illustrated in the following chart, backlogs of pending charges continued to grow in the Ontario Court of Justice, which handled the majority of criminal cases.

Ontario Court of Justice
Five-Year Summary of Average Age of Criminal Charges Pending



*March 2002 data unavailable due to labour disruption.

Source of data: Ministry of the Attorney General

Over the five-year period from 1997/98 to 2001/02, the total number of pending charges at the Ontario Court of Justice grew by 37%, and the number of criminal charges in the courts with an average age of more than eight months increased by approximately 65% or 39,000. The problem was more serious at certain courthouses, particularly those in large urban centres such as Toronto, Ottawa, and Brampton. At some of these locations, it took up to 12 months to schedule cases requiring a full day of court time—these were typically the more serious cases.

The Superior Court of Justice was also experiencing significant backlogs in its criminal and family courts. Conversely, the Ontario Court of Appeal indicated it had been successful in eliminating its backlogs through better control over trial scheduling and screening and through termination of appeals with no merits. The average delay in hearings for civil appeals had been reduced from 30 months to five months; for criminal appeals, it had been reduced from six to 12 months to three to four months.

Many of the factors that contribute to delays in cases being heard are beyond the control of the Ministry and the Judiciary. Examples of these factors include the increasing complexity and length of criminal cases, the unreadiness of the parties, and the growing number of self-represented litigants in the courts, leading to more lengthy proceedings.

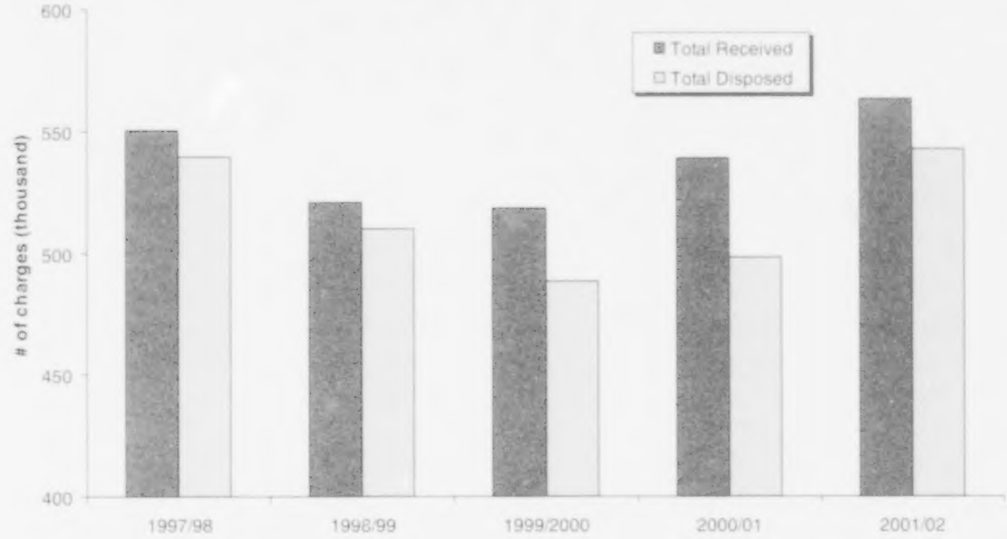
Furthermore, the actions and decisions of each party involved in a trial—including the police, Crown and defence attorneys, and the litigants—all have an impact on the number of court appearances and the length of a trial. This in turn affects the utilization of courtrooms and the ability of the Judiciary to dispose of cases on a timely basis.

In this regard, we noted that the average number of court appearances for a case to be resolved in the Ontario Court of Justice increased more than 20%, from 5.89 appearances in 1996/97 to 7.24 appearances in 2001/02. The Ministry could not provide specific reasons for this increase, but it recognized that the increase placed additional demands on the resources of courts and judges.

Over the years, the Ministry and Judiciary have introduced a number of measures to address the issue of backlogs. For example, since our *1997 Annual Report*, the number of judges has increased by approximately 5%, case management procedures have been established for certain types of cases to monitor unreasonable delays, and mandatory mediation procedures have been used to encourage parties in civil cases to resolve disputes without costly and lengthy court hearings. For courts with serious backlogs, blitzes—through the appointment and reallocation of judges and Crown attorneys—have been used to deal with more cases.

However, the measures introduced have not been enough to address the problem, and backlogs have continued to increase. As depicted in the following chart, in each of the five years from 1997/98 to 2001/02, the number of charges disposed of by the Ontario Court of Justice did not keep pace with the number of charges received.

Ontario Court of Justice
Five-Year Summary of Criminal Charges Received and Disposed



Source of data: Ministry of the Attorney General

There are serious ramifications when backlogs in courts are not adequately addressed: the public can develop a perception that the courts are not responsive to their needs; defendants can take advantage of delays to argue that their cases be withdrawn; and witnesses' memories can fade over long periods. Also, long delays caused by backlogs are unfair to accused persons who want criminal charges outstanding against them resolved as soon as possible.

The Chief Justices for the Ontario Court of Justice and the Superior Court of Justice recently indicated that they have been concerned for some time over the growing backlog of cases both in criminal and in family matters, particularly in the larger urban court locations. Both of these Chief Justices have informed the Attorney General that additional judicial appointments are necessary to reduce backlogs.

Despite the Ministry's efforts, the number of backlogged cases in 2002 was at its highest level in 10 years. There is a risk that a situation similar to 1992 may be developing, when long delays resulted in more than 50,000 charges being withdrawn from prosecution.

Recommendation

The Ministry should work with the Judiciary and other stakeholders to develop more successful solutions for eliminating backlogs, including:

- **creating better tools to identify the sources and specific reasons for delays so that action can be taken to address potential problems in a more timely manner;**

- **assessing the resource implications of actions taken and decisions reached by the different parties to a trial so that resources allocated to courts can handle the increased caseloads; and**
- **establishing realistic targets and timetables for eliminating backlogs.**

Ministry Response

The Court Services Division has undertaken a project to improve the collection and analysis of management information to monitor case processing, to identify and diagnose processing delays, and to disseminate management information to the field, other divisions, the Judiciary, and others, in order to support prevention and resolution of delays.

Options for enhancing the scope of management information available from the Division's data system are being explored. The new case-tracking system for civil and family proceedings will provide the Division, for the first time, with data about the length of those proceedings. In the short term, the criminal operational system will be upgraded to, for example, allow the collection of information about the reasons for adjournments. Once preliminary improvements have been made to the criminal operational system, options for collecting data about the length of criminal proceedings and other valuable diagnostic data will be explored.

The Division is also developing a staff resourcing model and will assist the Ontario Court of Justice to develop a judicial complement model to ensure appropriate and effective resource allocation.

The government will invest $15.8 million in new funding this year to ensure that the justice system operates more efficiently and more effectively. This investment enables the Attorney General to appoint 15 new judges to the Ontario Court of Justice and hire a prosecution team, including at least 36 new Crown attorneys and other staff needed to support court operations.

More resources and better information will allow for the establishment of realistic targets and timelines for eliminating backlogs.

INFORMATION SYSTEMS AND THE USE OF NEW TECHNOLOGIES

The Division uses two main computerized systems to provide information to the Judiciary and Crown attorneys. The Integrated Court Offences Network (ICON) is an on-line mainframe system that accumulates information by courthouse in the Ontario Court of Justice. It maintains case data and produces court docket and monthly statistical reports. In the Superior Court of Justice, monthly statistical reports are produced by the Court Input Statistics System (CISS) through information collected from individual courts using manual or stand-alone computer systems. In addition, several courthouses use a variety of local systems to schedule civil cases.

Integrated Justice Project

In 1997, we reported that the ICON system, which was established in 1989, was outdated and did not capture all the necessary information or produce the reports needed by both the Judiciary and the Ministry. There were concerns with these systems over inconsistencies in the classification of data, data accuracy, and timeliness of information.

In 1996, the Ministry along with other justice ministries and a consortium of private-sector partners, initiated the Integrated Justice Project (IJP), which was created with the intention of facilitating a more modern, effective, and accessible administration of justice. New integrated information systems were expected to be developed for police, Crown attorneys, courts, and corrections. The courts component of IJP was the largest and most complex. It was expected to introduce new or improved systems for case management, court scheduling, electronic document filing, and digital audio recording of official court records.

Because of significant cost increases and delays, however, the IJP project was terminated in October 2002. No new systems were delivered to courts, except for a few test projects. The Ministry has now assumed responsibility for any new court information systems and, where possible, continues any development carried over from the IJP project.

During the period from 1996/97 to 2002/03, the Ministry invested approximately $21 million in IJP and made minimal enhancements to existing court information systems, since the expectation was that these systems would be replaced. As a result, both the Judiciary and Ministry informed us, although the IJP has had some benefits in improving information sharing and communications, on the whole, the project has actually delayed any real progress in introducing new information technology to the courts.

We reported on the IJP in our *2001 Annual Report*, which was followed by a number of Standing Committee on Public Accounts hearings in 2002. During the hearings, the Committee considered the IJP's financial and qualitative benefits to users of the justice system and concluded that the IJP was essential to the modernization of the justice system in Ontario. The Committee indicated these benefits might not be realized if the project were terminated; therefore, it encouraged the ministries involved to proceed with the IJP either under new arrangements with the Consortium or through alternative approaches.

With the termination of the IJP, we reiterate the concern from our prior audit that the courts' information systems were in critical need of modernization to reduce inefficiencies and reduce delays in the administration of justice.

New Technologies

Over the past few years, several new technologies have been introduced to certain courts. However, most new technology initiatives were conducted on a test basis and have yet to improve the efficiency of the courts. Two of these initiatives were as follows:

- The volume of cases being handled each year requires court staff to manage a large number of documents as they are processed through the courts. The savings and efficiencies of moving to a paperless, electronic court document system would be substantial. Since 1996/97, as part of an IJP test project, the Ministry has accepted certain electronic forms filings from lawyers, primarily for civil and small claims court documents. To date, however, the use of this service has been relatively low, and only three courthouses accept electronic filing.

  In addition, there were few benefits to the Ministry from this initiative because the Ministry's existing systems did not have the capability for processing the electronically filed forms. Instead, the forms had to be printed out by court staff and the information entered manually into the local systems.

- Court transcripts are recorded manually by court reporters. This often delays court proceedings because long periods of time are often taken to produce lengthy court transcripts. The IJP tested digital audio recording systems in three locations with the intention of moving all courts to an automated court reporting system, both to improve the timeliness of obtaining transcripts and to reduce court reporter costs. However, the Ministry determined that the software did not meet Ontario's functional requirements for courtroom recordings, nor would it realize the goal of reducing staffing costs.

On the other hand, one area where the courts made good use of technology was with video appearances. Most criminal court appearances are for preliminary or remand hearings, which may take a few minutes to complete, and after which the accused is remanded or returned to custody to await trial. The Video Remand Project allows an accused person to appear in a courtroom by video conferencing from a correctional institution or police station. This eliminates the cost and need to transport the prisoner to court. As of March 31, 2003, approximately 100 courts and detention locations have installed equipment that allows for video remand appearances.

Recommendation

To help ensure the timely disposition of cases and improve efficiencies, the Ministry should take the necessary steps to upgrade the information technologies used in courts. In addition, the Ministry should establish a comprehensive plan for the timely implementation of new information technologies.

Ministry Response

The Ministry is committed to modernizing the justice system to increase public safety, improve service, and increase access to justice. Any new development of system enhancement by the Ministry are to be based on business cases that are affordable, staged, and cost effective and that set realistic time frames. As part of its five-year plan, the Ministry has committed to a court-case-tracking system named "Frank" and other upgrades and plans.

Frank is a court-case-tracking system for civil, family, small claims, divisional, and superior court criminal cases that will operate in all Ontario courthouses. It has been piloted at courthouses in Brantford, Oshawa, Sudbury, and Whitby. It helps staff ensure that cases are managed within prescribed timelines and eliminates time-consuming manual processes. To further improve courthouse efficiency, Frank generates regulated notices and orders, allows court staff to make case-specific inquiries without having to retrieve paper case files, and prevents duplication of efforts with a system that requires data to be entered only once.

In addition, the Ministry has committed to:

- ***make upgrades to the operational system for criminal proceedings in the short term to provide more data to identify opportunities to increase efficiency, while, in the longer term, options for an improved criminal-case-management system will be developed;***
- ***develop a multi-year strategic information management/information technology plan to define the information technology priorities and identify resource requirements; and***
- ***continue with the model electronic courtroom, which was introduced to pilot the use of multimedia presentations and evidence, remote appearances, and digital audio recording and which is operated and managed by the Toronto region.***

FINANCIAL INFORMATION

Financial information is needed to properly assess accountability for expenditures and to help determine whether court services are provided economically and efficiently.

We reported in 1997 that the Ministry made little effort to assess its costs, other than to compile information on actual compared with budgeted expenditures by region and court location. In 2003, the Ministry still did not have any regular management reporting systems in use, at either the corporate or regional level, that would allow management to monitor how cost effectively court services were being delivered. For example, none of the regions we visited reported their costs by activities or compared their costs with any benchmarks or costs in prior years or against costs for similar services at other regions; nor were costs reported in standardized reports that would allow for meaningful comparisons.

The Ministry provided us with reports produced at the corporate level that contained better financial and management information on program costs. For example, a draft report for January 2002 was prepared that compared various court activities and costs by region and with other provinces. The report was not complete or verified, and the Ministry acknowledged the need for additional data. As of March 2003, no final or subsequent reports had been produced.

Recommendation

To manage the cost of court operations effectively, the Ministry should:

- **identify and collect the information needed to assess whether court services are being provided economically and efficiently; and**
- **determine how information technology can best be utilized to facilitate this process.**

Ministry Response

In its five-year plan, the Ministry has established the following measurable service standard: Divisional finances are managed according to Management Board standards and policies and are tracked monthly to ensure the [Court Services] Division operates within its allocation.

Effective April 2004, the Division will implement an expenditure account structure that will allow for the capture of costs by practice area. A review of the Division's expenditure account structure is currently underway to determine how best to implement this new structure. This review will also include capturing staffing costs through Corpay coding.

The implementation of the Integrated Financial Information System (IFIS) is planned for fall 2004. The revised coding structure will be incorporated into IFIS. IFIS will provide improved expenditure-commitment reporting to assist in forecasting.

A review of regional expenditures is currently underway. Particular attention is being given to costs related to caseload.

Court costs will be linked with the improvements planned for the collection of workload statistics. It is expected this will allow for the determination of costs based on case type.

EXPENDITURE CONTROLS

Our audit identified several instances where the Ministry did not comply with the applicable Management Board of Cabinet directives that require that goods and services, including consultants, be acquired economically and competitively, and that payments be properly controlled. For example:

- The directives set out operating procedures for the use and control of purchasing cards, which are credit cards issued to government employees, allowing them to make minor purchases more cost effectively. We noted that controls over local purchasing cards were often not followed by staff at courthouses and regional offices. About half of the monthly statements we examined were not reviewed and approved by the cardholders' manager, and receipts were often missing.
- We noted two occasions where the Ministry hired contractors to make repairs at courthouses without signing an agreement that set out the terms and conditions of the assignment or the terms for payment. In addition, the Ministry could not produce any documentation regarding the competitive selection of these contractors. One contractor was paid more than $100,000 from January to March 2002, while the other contractor was paid more than $400,000 over the same time period.

The Ministry also engaged several consultants to perform managerial or operational work on an ongoing basis, contrary to the Management Board of Cabinet requirements. For example, the Ministry has hired one consultant since 1989 to provide varying degrees of modifications and support to a court office system. Over the last three years, this consultant was paid approximately $565 per day for a total of $253,600. This practice is contrary to the Management Board of Cabinet directive on consulting services that stipulates that, where appropriate, a transfer of knowledge must occur from consultant to staff to avoid a continuous reliance on consultants.

Recommendation

The Ministry should ensure that adequate controls are in place over expenditures so that goods and services, including consultants, are acquired competitively and in compliance with Management Board of Cabinet directives.

Ministry Response

The Ministry is committed to ensuring that adequate controls are in place over expenditures.

Communications pertaining to proper procurement procedures and payment processing will be sent to all Division management for distribution as appropriate. Links to Shared Services Bureau sites will be made available to managers.

The topic of adequate controls over expenditures will be addressed on a periodic basis at managers' meetings to reinforce adherence to proper practices.

CAPITAL PROJECTS

Over the past six years, the Ministry spent approximately $275 million on capital projects to modernize and improve courts. This included renovations to existing courthouses or consolidation of several local court locations into a new courthouse. A Management Board of Cabinet directive requires the Ministry to arrange for construction and management of capital projects by the Ontario Realty Corporation (ORC), or its private company agent.

Our audit of the acquisition and management of capital projects for courts identified the following deficiencies:

Leasehold improvements at new courthouse—2201 Finch Avenue West, Toronto. As of March 2003, construction was substantially completed at the Ministry's new 73,000 ft^2 courthouse at a leased accommodation at 2201 Finch Avenue West. Total costs to complete the project were expected to be $30 million. The new court location replaced an existing leased courthouse that was discovered in November 2000 to contain toxic mould and therefore to present health concerns for its occupants.

In May 2001, the Ministry initially leased approximately 40,000 ft^2 at the new location as an interim courthouse, while remediation and refurbishing were expected to take place at the existing leased courthouse. We were informed that the project at the interim site was managed by ORC's agent on an expedited basis, with expected occupancy by September 1, 2001. Therefore, the lease for the interim site was not selected through a call for tenders. Rather, we were advised that ORC considered several locations using an independent realty broker.

The renovation project to convert the interim location to a temporary courthouse was not awarded using a call for tenders either. Instead, the Ministry informed us that the ORC's agent managed the project using a contractor selected from a list of unit-priced suppliers who provided their services at rates that were agreed to beforehand. While the rates quoted by these suppliers were obtained through a pre-qualification process, the suppliers on the list were meant to be used on assignments costing less than $100,000. The project, then estimated to cost approximately $8 million, was therefore carried out without a fixed-price contract and without a proper competitive acquisition process for a project of this size. In addition, the Ministry did not obtain ministerial or Management Board of Cabinet approval for not following competitive selection procedures before awarding a contract of this magnitude.

In September 2001, the Ministry sought and obtained approval from the Management Board of Cabinet and the Cabinet Committee on Privatization and SuperBuild (CCOPS) to change its plans and establish a new courthouse at the Finch Avenue leased location. The Ministry stated that the change was needed after a more detailed building condition assessment found extensive renovations were necessary at the existing courthouse. The revised total cost of renovations for the new courthouse at the Finch Avenue location was then estimated at $21 million, with additional space requirements of 33,000 ft^2. In addition, the expected occupancy date was changed from September 2001 to January 2002 for court operations, and to May 2002 for the construction of holding cells.

By March 2003, the cost of the project had increased to $30 million, about $9 million more than forecast in September 2001. Only $6 million of the total cost of the project was awarded competitively. In addition, we noted that other courthouse projects had significantly lower construction costs. Costs for these other projects ranged from approximately $200 to $280 per ft^2 (in 2001 dollars) when using contractors selected through calls for competitive tenders and fixed-price contracts. The Finch Avenue project incurred costs of approximately $390 per ft^2, which were 40% higher than the costs for other similar projects.

The Ministry relocated all of its operations out of the existing leased courthouse as of July 29, 2002, or six months after the expected occupancy date, with the holding cells not completed until March 2003, requiring other courthouses to be used for an extended period.

In addition, the Ministry informed the Management Board of Cabinet and CCOPS when seeking approval for its new courthouse that the primary cause of the toxic mould problem was the inadequate building maintenance provided by the former building owners over many years. However, according to the Ministry and ORC, after obtaining legal advice, a decision was made to continue to pay rent on the vacated courthouse until the lease expires on April 30, 2004. This rent will total more than $1 million from the time the building was vacated.

Notwithstanding the Ministry's and ORC's efforts to deal as quickly as possible with the health concerns at the former courthouse, during the period of more than two years taken to complete the project, large contracts were awarded without following competitive selection procedures, and approvals to deviate from required Management Board of Cabinet directives were not obtained from either ministry senior management or Cabinet.

Mould remediation work—Newmarket courthouse. In March 2000, toxic mould was discovered in the Newmarket courthouse. The building was closed on June 30, 2000, because of escalating concerns for the occupants' health and to allow for the necessary remedial repairs and related updates to the building's systems. The courthouse was reopened in July 2001, after approximately $23 million had been spent on remedial work. The Ministry also spent an additional $20 million for temporary accommodations to maintain court operations during the period.

The costs and scope of the remedial work were significantly underestimated throughout the life of this project. On April 20, 2000, the total project costs were originally estimated at approximately $250,000, and there was no expectation that court operations would need to be temporarily relocated during the repairs. One month later, when substantially more serious mould damage than had previously been determined was found to exist, ORC's agent estimated the total costs of the remedial work, in a "worst-case scenario," to be $3.5 million. However, the estimated costs were revised upwards as follows: $8.3 million (in

August 2000); $11.4 million (in October 2000); $14.9 million (in December 2000); and $18.4 million (in March 2001). As noted earlier, the final costs for the remedial work were approximately $23 million.

We noted that the majority of contracts for both the remedial work and the relocation to temporary accommodations were awarded without following competitive selection procedures. For example, on May 12, 2000, as part of the original project, a contractor was selected through a competitive process to do remedial work at a cost of $52,000. In spite of the increase in the scope and extent of the work and the significantly higher estimates of project costs that followed, no competitive quotes were subsequently obtained from other contractors. Eventually, the primary contractor received $23.8 million, of which $13.4 million was for the mould remediation work. The contractor was also awarded contracts without competition, totalling $10.4 million, for work pertaining to the construction of temporary accomodations.

When the building was closed on June 30, 2000, the remediation project was expedited to minimize the time required for the Ministry to maintain court operations from temporary accommodations. However, the significant difference between the original estimate and final project costs demonstrates that, even when projects are expedited, adequate upfront planning is imperative. Such planning would allow for better and more predictable decision-making prior to commencing capital projects and during the entire life of the projects and would ensure that appropriate competitive procurement practices are followed.

New victim witness facilities and Crown attorney offices—Milton courthouse. As noted above, a directive from the Management Board of Cabinet requires the Ministry to use the ORC for construction of capital projects. Contrary to this directive and without seeking competitive tenders, in February 2001 the Ministry contracted directly with a private project management company to construct victim witness facilities and Crown attorney offices at the Milton courthouse. The Branch expected the project management company to hire contractors on a competitive basis to perform the construction. The project was estimated to cost $200,000.

More than one year later, the project management company provided the Ministry with an invoice indicating the work had been completed, even though no contractors had been hired and no work had been started on this project at the time. In March 2002, the Ministry paid the company's invoice for $187,000, even though it was aware no work had been done. We were informed that the payment was made because the funds were committed for that fiscal year and may not be available at a later date.

Following our inquiries into this project, the Ministry terminated its contract with the project management company in January 2003. The Ministry then re-assigned management of the project to the ORC. At that time, the project management company still had not completed any substantial work on the project. In January 2003, the Ministry requested and received a refund from the project management company of $166,000.

In summary, better planning, better project management, the use of competitive tenders, and compliance with corporate polices could have resulted in lower costs to complete capital projects at courthouses.

Recommendation

To ensure that courthouse construction and renovation projects are acquired competitively, on budget, and in accordance with Management Board of Cabinet policies, the Ministry, in conjunction with the Ontario Realty Corporation, should adequately plan and manage its capital projects. In addition, the Ministry should ensure that appropriate controls are in place so that contractors are only paid for completed work.

Ministry Response

Mould presents a number of possible health risks. The Health Promotion and Protection Act *requires a building manager to provide a safe environment for occupants of the building. The* Occupational Health and Safety Act *details the responsibility of the employer to ensure a healthy and safe workplace for its employees.*

At the courthouse at the previous location (80 The East Mall), which is the fourth-largest courthouse in Ontario and which deals with criminal and young offender violations, the Ministry of Labour issued six orders (from late fall 2000 to summer 2001) relating to serious mould, structural, heating, ventilating, and air-conditioning issues. To address these issues, some court operations were transferred to different locations on an emergency basis until the new courthouse at 2201 Finch Avenue West could be completed.

In Newmarket, 27 Ministry of Labour orders were issued during the spring of 2000 and resulted in work refusals. The Ministry undertook the difficult decision to shut down the courthouse to remediate the mould. A temporary portable facility was employed at the site, and some court operations were moved to nearby locations to ensure access to justice services continued without interruption.

In both cases, the nature of the mould constituted an emergency, which the Ministry was obligated to address in the most expedient manner possible. To help ensure that the Ministry was receiving value for money, an independent cost consultant and quantity surveyor was engaged by the Ontario Realty Corporation and was responsible for certifying the accuracy and the validity of all payments made. Without the emergency measures being taken, there would have been a breakdown in the administration of justice and criminal cases may have been lost. The actions of the Ministry were in the best interest of the public and the staff who work in the two courthouses.

The Ministry does acknowledge the benefits of economy of costs related to the tendering process and will continue to work in partnership with its mandatory

service providers to ensure construction and renovation projects are acquired competitively, on budget, and in accordance with Management Board of Cabinet policies.

As part of the capital planning cycle, the Ministry will continue to consult with the Ontario Realty Corporation as its mandatory service provider to ensure proper planning of capital projects is conducted.

The Ministry has instituted additional processes and procedures to further strengthen the controls in place on its capital allocation.

COURT SECURITY

Under the *Police Services Act*, local police services boards are responsible for ensuring the security of judges and persons taking part in or attending court proceedings. The local police services contribute to court security primarily by providing and paying for trained officers to manage and implement security measures and to operate security devices. The Ministry has the responsibility for court security costs that are not related to staffing. These include ensuring that courthouses are designed and maintained in an appropriate manner, such as having secured corridors and holding cells. Other costs are for purchasing and maintaining security devices, such as scanners at entrances and security cameras.

In March 2001, the Division initiated a court security project. An internal committee consisting of senior management was given the mandate to address facility-related security risks and to help in the decisions needed to prioritize the short- and long-term capital expenditures for court security. As part of the project, the committee engaged an outside security consulting company at a cost of approximately $148,000 to review the security risks at 90 larger court sites.

Based on the consultant's findings, in January 2003 the committee reported numerous gaps in security measures at courthouses surveyed. More than 150 types of security deficiencies were noted. For example, some courthouses had:

- no monitoring of panic buttons by local police or court staff;
- no secure cabinets in judges' chambers;
- no guards at the main entrances of court facilities;
- no parking for judges that was segregated from the public; and
- no security inspections of courtrooms before proceedings.

The key risks identified in the committee's report included: unauthorized weapons; verbal abuse and threats; vandalism and sabotage; theft; and assault and altercations.

During our visits to courthouses, we most often noted significant inconsistencies in the level of security at the public entrances to courthouses dealing with criminal cases. While police at many of these courthouses required people entering to be scanned for metal devices and to have their baggage checked, police at other courthouses did not impose these requirements. At two courthouses we visited, the local police were not operating metal scanning devices at entrances even though the Ministry had provided the equipment at a cost of approximately $15,000 per courthouse. At another courthouse we visited, where these checks were conducted, the local police indicated that their searches resulted in more than 100 persons being charged annually for various violations.

Two of the Chief Justices expressed concerns to us about the level of security in courthouses. One of them wrote:

> The issue of security is a significant concern to the court.... While local security committees may be in place, there exists across the province a patchwork of security measures, largely dictated either by the occurrence of a significant event leading to enhanced levels of security at a particular court location or, more commonly, by budget constraints leading to reduced security. The present state of security with respect to courthouses in the province of Ontario is such that the public and court users may be exposed to unnecessary security risks because of the lack of a consistent approach to security issues....
>
> It is the Court's position that what is required to improve courthouse and courtroom security is a province-wide review of existing security measures combined with the creation of specific security standards for courthouses and courtrooms.

At the time of our audit, the Ministry was in the process of considering how to address the security issues that had been raised.

Recommendation

To ensure the safety of judges and persons involved in court proceedings, the Ministry should act quickly in co-operation with stakeholders to establish and maintain an appropriate level of security in all courthouses.

Ministry Response

The Court Services Division, in co-operation with stakeholders, is considering the steps necessary to ensure the availability and consistent application of security devices at all courthouses across the province.

Building on the court-security-project report findings, the Ministry's Facilities Branch has been requested to undertake efforts towards determination of facility standards, including standards for security equipment, for consideration in various types of court facilities (for example, older versus newer facilities and large versus medium versus small sites).

COLLECTION OF FINES

As part of the Local Services Realignment initiative, in January 1997 the Government of Ontario decided to transfer to municipalities the administration and prosecution functions for most charges that fall under the *Provincial Offences Act*, including the collection of fines for these charges. Most of the fines transferred were for offences committed under the *Highway Traffic Act*. This transfer of responsibility to municipalities commenced in March 1999 and concluded in February 2002. Afterwards, the Ministry only retained responsibility for collecting fines for violations under other provincial statutes and the *Criminal Code*. As of February 2003, the Ministry had the responsibility for collecting approximately $60 million in outstanding fines, about half of which were at least five years old and considered by the Ministry to be uncollectible.

The Integrated Court Offences Network (ICON) is used to keep track of the fines, and it produces a monthly report on the amounts imposed and collected and on the age of outstanding fines. Approximately $15 million in fines are imposed annually, and the majority of these fines require collection efforts. The Ministry has an agreement with Management Board Secretariat's Collection Management Unit (Unit), which requires that outstanding fines be transferred to the Unit at least every three months for collection by private collection agencies. Timely transfer to collection agencies is imperative because the longer a fine is outstanding, the more difficult it is to ultimately collect.

In 1997, we reported that the Ministry needed to improve its efforts to collect fines. However, we found there had been little progress made in implementing our recommendations. Specifically:

- Over the last five years, the Ministry made transfers to the Unit on only four occasions. The last transfer was made on October 1, 2002, which was two-and-a-half years since the previous transfer. Also, the Ministry was not reconciling its records to those kept by the Unit to ensure that all fines in default had been transferred and accounted for. As of February 28, 2003, the Unit reported only $33 million in fines outstanding for longer than three months. We noted that at the same time the Ministry's records showed approximately $57 million in fines that were in arrears for longer than three months.
- The Ministry receives monthly activity reports from the Unit on fines collected and outstanding. However, the Ministry did not monitor collection rates to determine the success of collection efforts.
- According to its agreement with the Unit, the Ministry is required to authorize the various types of enforcement measures to be used by private collection agencies. We noted that the enforcement measures authorized by the Ministry were among the weakest in use when compared with those utilized by other ministries. For example, the Ministry does not permit: reporting defaulters to a credit bureau; accumulating interest and collection charges; suspending a driver's licence or denying vehicle plate renewal; seizing income tax refunds; garnishing wages; or taking legal action.

Enforcing the collection of fines is necessary to ensure the integrity of the justice system and to deter offenders from re-offending in the future.

Recommendation

To better ensure that offenders pay their fines, the Ministry should:

- **forward all outstanding fines to the Collection Management Unit for collection on a timely basis;**
- **authorize more vigorous enforcement measures to pursue outstanding fines; and**
- **improve its system for tracking fines.**

Ministry Response

Of the total fines imposed annually, historically about two-thirds are eventually collected. The remaining one-third of the fines is difficult to collect.

To ensure that offenders pay their fines, the Ministry will:

- ***ensure regular (quarterly) transmission of defaulted fines data to the Collection Management Unit (Unit);***
- ***arrange for a dedicated resource to liaise with the Unit on collection activity and develop a funding proposal for the 2004/05 fiscal year; and***
- ***investigate and implement improved tracking of fines and more vigorous enforcement measures.***

PERFORMANCE REPORTING

Good performance reporting should include the following attributes: clear goals and objectives; complete and relevant performance measures; appropriate standards and targets for measuring results; reliable systems to gather the necessary information; and a reporting mechanism for regularly communicating accomplishments and areas requiring corrective action. Because responsibility for the courts is shared between the Court Services Division and the Judiciary, both parties have to participate in establishing appropriate performance measures.

In 1997, the Ministry informed us that it was in the process of developing performance measures for the administration of courts, including standards and targets, for inclusion in the Ministry's business plans. The Ministry intended to develop more specific performance indicators, targets, and benchmarks against which achievement of results could be measured. In our 1999 follow-up, we noted that these plans were still in progress. Our current audit found that the Ministry had still not made any significant improvements to measure and report on its performance.

As at March 31, 2003, the Ministry had only two performance measures in its annual business plan on courts. These consisted of the results of surveys of public satisfaction with services in small claims court and in family law information centres, and a record of the percentage of civil cases settled through mediation. These areas represent only a small fraction of the services provided by courts. No outcome or activity measures were available on the core businesses of criminal courts and judicial services. In addition, we noted that the Ministry had not established any indicators to measure and report on efficiency, such as the costs of providing court services or a comparison of Ontario's costs with those of other jurisdictions.

We noted that the Ministry had some information that was available internally to its management. This information consisted of data on backlogs, the number of court sitting hours, and the average time to trial in the Ontario Court of Justice. The information could have been reported on publicly in the Ministry's business plan or Web sites. Other jurisdictions also have relevant indicators that they reported, such as court workloads, administrative duties completed within targeted time, the collection of fines, and waiting times for trials. This information was already available within the Ministry but had not been published.

The Ministry acknowledged the need for improvements in performance information that could help establish service standards and that could support its business goals and resource needs in an environment of limited financial resources. The Ministry indicated that the necessary financial and management information would be gathered as part of its recent efforts to establish a five-year strategic plan.

Recommendation

The Ministry should measure and report on its cost-effectiveness, efficiency, and outcomes in providing court services by:

- **working with the Judiciary to develop appropriate performance indicators and targets against which it can measure the achievement of its business goals and operational standards;**
- **ensuring its information systems gather and report the information needed for management to monitor performance on an ongoing basis; and**
- **reporting regularly to the public on its performance.**

Ministry Response

A five-year plan has now been developed for the Court Services Division identifying five business goals and 42 measurable service standards for compliance with business goals, including both overarching standards for the Division and standards for each practice area. The goals, standards, and initiatives established in the five-year plan will be reflected in the Division's Business Plan and will be published in the Division's new Annual Report this summer. All aspects of the plan, including the service standards, will be reviewed and updated annually in consultation with the Judiciary and court users. As a part of this process, measures to gauge the Division's cost-

effectiveness, efficiency, and outcomes in providing court services will be explored.

Performance measuring will also be supported through the evaluation of all Division programs on a four-year cycle. The evaluations will determine the relevance of the program to the core business of the Ministry and assess the efficiency, effectiveness, and sustainability of the program. Program evaluations for enforcement activity and judicial support services will be completed this December, for criminal and head-office operations in 2004/05, and for civil and family operations in 2005/06.

The Division has a number of initiatives underway to provide enhanced management information to support management decision-making and performance reporting. These measures will improve the scope and accuracy of, and access to, management information. For example:

- *A new case-tracking system named "Frank," for civil, family, Small Claims, Divisional Court, and Superior Court of Justice criminal proceedings, will provide more, and more accurate, data about those proceedings.*
- *A project plan has now been developed to improve the quality of data collection in the Integrated Court Offences Network and to expand the scope of data available.*

MINISTRY OF COMMUNITY, FAMILY AND CHILDREN'S SERVICES

3.02–Children's Mental Health Services

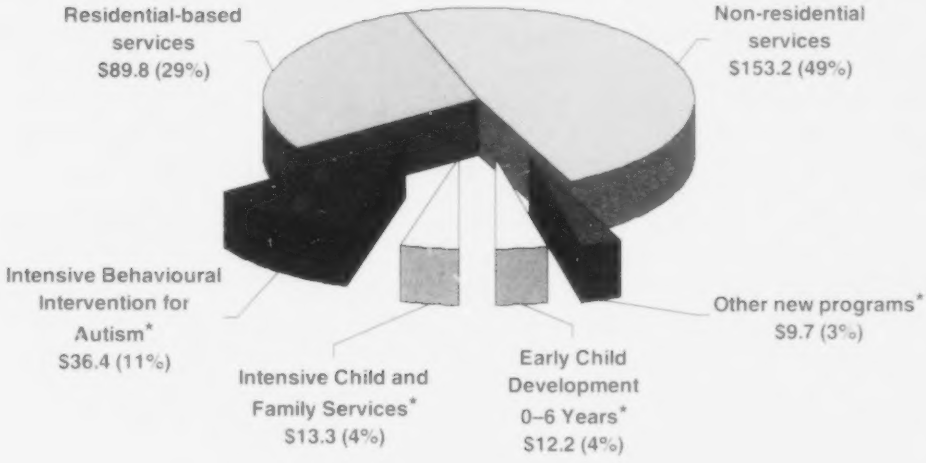
BACKGROUND

The Child and Family Intervention (CFI) and Child Treatment (CT) programs of the Ministry of Community, Family and Children's Services are collectively referred to as "Children's Mental Health Services." These programs fund transfer-payment agencies that provide services to children and/or the families of children who have social, emotional, or behavioural problems or psychiatric disorders. Services are also offered in cases such as family breakdown, physical or sexual abuse, attempted suicide, and depression. The CT program generally deals with more severe cases of children who are treated by or under the supervision of a psychiatrist; otherwise, the CFI and CT programs are similar.

Under provisions of the *Child and Family Services Act*, approximately 250 community-based agencies are funded. The types of services offered include assessment, psychiatric therapy, counselling, crisis intervention, and skills training and education, as well as residential-based services (mental health services offered in a residential setting) to children who require more intensive assistance. The Ministry's nine regional offices are responsible for contracting for and monitoring the delivery of children's mental health services by the agencies in their respective regions. However, since children's mental health services are not mandatory, services provided are limited by the level of available funding rather than the level of need.

Services are generally provided to children under the age of 18, including young offenders and children who may already be receiving services from a Children's Aid Society or other programs funded by the Ministry.

Total Children's Mental Health Services expenditures have increased substantially since the time of our last audit, from $213 million in 1997 to $315 million in 2002/03. However, most of this increase has been spent on several new initiatives in the last two years that in most cases provide intensive services to relatively few individuals with complex special needs. The following chart shows how funding was distributed among components of Children's Mental Health Services.



Children's Mental Health Services Expenditures, 2002/03 Fiscal Year ($ million)

*New initiative(s) since 1997

Source of data: Ministry of Community, Family and Children's Services

AUDIT OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the Ministry's administrative procedures were adequate to ensure that:

- the quality and outcome of services provided by the community-based agencies was monitored and assessed; and
- transfer payments to agencies were reasonable and satisfactorily controlled.

The scope of our audit included a review and analyses of ministry files and administrative procedures, as well as interviews with appropriate staff at the Ministry's head office and three regional offices. We also visited a number of agency sites and interviewed staff there.

Prior to the commencement of our audit work, we identified the audit criteria that we would use to conclude on our audit objectives. These were reviewed with and agreed to by senior management of the Ministry.

Our audit work was primarily conducted in the period from November 2002 to March 2003. Our work on program expenditures and procedures focused on the 2001/02 and 2002/03 fiscal years. Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the

Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

We did not rely on the Ministry's internal audit branch to reduce the extent of our audit work because they had not recently conducted any work in the area of our audit.

OVERALL AUDIT CONCLUSIONS

Based on the audit work we performed, we concluded that the Ministry was not adequately monitoring and assessing the quality of the services provided by agencies. As a result, the Ministry cannot be assured that vulnerable children in need are receiving the care and assistance they require. In particular, the Ministry:

- had not established service quality standards and service evaluation criteria to help staff monitor whether or not services were of an acceptable quality and represented value for money spent;
- had not established waiting-time standards for access to service that were reasonable and commensurate with individual children's needs, and was not monitoring the extent and impact of lengthy waiting times for service; and
- was not receiving or assessing information from agencies about the outcomes of the services they were providing, and could not take necessary corrective action with respect to financial and operational results due to the ineffectiveness of the existing quarterly reporting process.

We also concluded that the Ministry's administrative procedures were not adequate to ensure that transfer payments to agencies were reasonable and satisfactorily controlled. Specifically:

- The Ministry's funding decisions were not based on sufficiently detailed and relevant financial and operational information from agencies to ensure that the amounts approved were commensurate with the demand for, and value of, the services to be provided.
- The Annual Program Expenditure Reconciliations and accompanying audited financial statements that the Ministry received did not contain sufficiently detailed and comparable information to allow it to detect ineligible and inappropriate expenditures and to determine whether there were funding surpluses.
- The Ministry was not effectively recovering annual funding surpluses from agencies as required by Management Board of Cabinet directives.
- The Ministry did not ensure that its management information system provided sufficiently detailed, relevant, and accurate information to allow it to monitor the cost effectiveness of service delivery.

Our conclusions and findings were of particular concern because many dealt with issues we had previously raised in our 1997 audit of the CFI program. Although the Ministry agreed with the recommendations in that audit and agreed to implement the necessary corrective action, its progress has been less than satisfactory. The current status of our 1997 recommendations is as follows.

Current Status of 1997 Recommendations

1997 Recommendation	Current Status
Service quality standards should be established, and service quality should be periodically evaluated.	Not fully implemented—work in progress
Outcome indicators should be implemented to assess and improve program effectiveness.	Not fully implemented—work in progress
Agency funding decisions should be based on sufficiently detailed and relevant information from agencies.	Not implemented
Where the costs of similar programs are not comparable, the reasons should be explained and justified.	Not implemented
Annual Program Expenditure Reconciliations and audited financial statements should provide sufficiently detailed information to permit the identification of inappropriate and ineligible expenditures.	Not implemented
More effective procedures should be in place to recover funding surpluses.	Improvement noted
Information necessary to determine whether services are provided cost effectively should be obtained.	Not fully implemented—work in progress

Overall Ministry Response

Under the* Child and Family Services Act*, the Ministry of Community, Family and Children's Services has the legislated authority to provide and/or fund services to children who have social, emotional, behavioural, and/or psychiatric problems. However, these services are discretionary under the Act and are provided to the level of available resources.

The Ministry is building on its recent experience and is developing a policy framework for children's mental health that will: confirm the government's expectations of children's mental health service providers; identify core children's mental health services; and establish a common policy platform for both the children's mental health services funded by the Ministry of Community, Family and Children's Services and those funded by the Ministry of Health and Long-Term Care. The Ministry expects that the policy framework will help clarify roles, responsibilities, and accountability requirements and facilitate the delivery of children's mental health services that focus services on children most in need.

DETAILED AUDIT OBSERVATIONS

MONITORING OF SERVICES PROVIDED

Quality of Service

Measurable and meaningful quality-of-service standards are essential for ensuring that service recipients' needs are adequately met and that the services provided represent value for money spent. Such standards would include set expectations for staff qualifications and staff-to-client ratios. Having appropriate quality-of-service standards is particularly important in light of the fact that the Ministry is not currently able to monitor and assess service outcomes (as discussed further under "Performance Measurement").

However, as was the case in our last audit, we found that, for the vast majority of the programs funded, neither standards defining acceptable service nor criteria for evaluating service quality had been developed. As a result, the Ministry did not have adequate assurance that the programs it funded adequately met client needs or represented value for money spent.

For example, in that regard we noted that in July 2001, a regional office that we visited and a transfer-payment agency jointly hired a consultant to perform a clinical review of the agency's operations. The consultant examined the quality of services offered at the agency and found the following:

- In the absence of established standards, the agency fell short of achieving the standard of practice that the consultant expected.
- There were concerns about the strength and consistency of the clinical programs offered.
- There were concerns in general about waiting times for service. For one of the agency's programs in particular, the waiting time to serve a client who might be suicidal or violent could be months.

On the other hand, we are pleased to note that the Ministry had developed service guidelines for several of the newly established programs. These program guidelines outline ministry requirements for core program design and best practices and in some cases include specific guidance for staff qualifications and experience, caseload sizes, and intensity of intervention. However, the Ministry had not taken full advantage of this initiative because, although head office staff considered compliance with the guidelines to be mandatory, staff in regional offices in most cases did not, and they therefore did not monitor whether or not guidelines were adhered to.

Recommendation

To ensure that agencies are aware of the Ministry's service-delivery expectations and to assist ministry staff in assessing whether services are of an acceptable quality and represent value for money spent, the Ministry should:

- **establish standards for acceptable service quality, as well as criteria for evaluating service quality, for all Children's Mental Health Services programs that it funds; and**
- **periodically evaluate the quality of services provided and work with its partner agencies to take corrective action where necessary.**

Ministry Response

For the past year, the Ministry has been working with a group of internal and external stakeholders in children's mental health to define core services and articulate the Ministry's vision of service for this sector. The Ministry will complete this work in 2003/04 and proposes to undertake an inventory of services provided by children's mental health agencies. The inventory would enable the Ministry to provide children's mental health agencies with clear and consistent direction on the core business and services they are expected to provide. To follow up on this work, in 2005/06 the Ministry proposes to conduct a program evaluation to confirm that the policy framework is being consistently applied by agencies, that core services are being delivered, and that children's mental health services are effective, efficient, and affordable.

As noted by the Provincial Auditor, the Ministry has required that children's mental health agencies implement standardized intake and assessment tools (the Brief Child and Family Phone Interview and the Child and Family Assessment Scale). Although these tools are still being refined, they document improvements and changes in individual children as a result of services provided and received.

The Ministry recognizes the need to monitor quality of service and has undertaken a number of initiatives that focus on improving services. For example:

- ***In 2003/04, the Ministry will pilot a mental health assessment tool for children under age six.***
- ***The Ministry has identified common assessment tools for children with autism that are currently being implemented.***
- ***In 2004/05, the Ministry will identify methods to measure child improvements as part of the Autism Strategy announced in November 2002.***

Waiting Lists

Timely access to children's mental health services is often critical for ensuring the best possible outcomes for those children in need of the services. Therefore, the Ministry needs to ensure that there are standards for access to service that are reasonable and commensurate with an individual's assessed needs. The Ministry also needs to ensure that agencies adhere to the standards.

However, we found that standards for access to services have not been established. Furthermore, with the exception of the autism program, information about waiting lists and times was not normally provided to the Ministry (in one region, information about waiting lists and times for some agencies providing non-residential services was provided to the Ministry during the time of our audit, but the Ministry had not yet reviewed and assessed it).

Our own review of what information was available indicated that waiting times were often lengthy. For example:

- Waiting times for children in the autism program averaged approximately one year for initial assessment and another year for actual services. Since the autism program is provided to children only up to the age of six, some children who turned six while waiting for service were removed from the waiting list without ever having received services. As of December 2002, 1,105 children were on the province-wide waiting list, compared to 453 children who were receiving the service.
- In one region that we visited, 224 children who had been approved as requiring residential-based care were on a waiting list for such care for an average period of eight months. Undoubtedly, the fact that all 91 beds available in this region were filled contributed to these lengthy waiting times.
- Similarly, in another region that had a consolidated waiting list for non-residential services at seven agencies, 138 children were waiting between three and 11 months for service. The seven agencies were serving only 28 children in total at that time.

Unless the regional offices receive reliable waiting-list information from the agencies and assess it, the Ministry cannot respond to significant problems on a timely basis.

Recommendation

In order that the necessary services are provided to children most in need on a timely basis and, when they are not, that the negative impact on children is lessened, the Ministry should:

- **establish standards for access to service that are reasonable and commensurate with individual children's needs; and**

- **assess the extent to which the standards are complied with and develop strategies to monitor and remedy situations where waiting times for service are too lengthy.**

Ministry Response

The Ministry acknowledges that waiting times for children's mental health services may be lengthy. Children's mental health services are discretionary under the Act and are provided to the level of available resources. It is the responsibility of service providers to prioritize an individual's need for service, considering ministry guidelines for children "most in need."

The Ministry implemented standardized common intake and assessment tools and access mechanisms across the province to improve access to services for children. However, the children's mental health sector is currently experiencing capacity issues, and the Ministry is working with agencies to prioritize services at the community level so that necessary services are provided to children most in need. Although the Ministry has provided new funding for children's mental health services since 1999, these funds have been designated to address specific service areas and gaps—for example, services to preschool-aged children and intensive child and family services—rather than to address capacity issues (for example, staffing resources), which would result in reduced wait times.

In 2001 and 2002, the Ministry asked service providers to provide specific information on numbers of children waiting for autism services. The Ministry used this information to identify additional funding required to meet the need. With the announcement of the Autism Strategy in November 2002, the Ministry will be spending approximately $100 million on services for children with autism by 2006/07. Based on waiting-list information provided, the Ministry doubled its budget for Intensive Behavioural Intervention services to respond to the demand for service.

Performance Measurement

The objective of the Children's Mental Health Services programs is to provide for a range of services that effectively alleviate many types of social, emotional, behavioural, and/or psychiatric problems experienced by children and their families. In order to ensure that this objective is met, the Ministry must monitor and assess the performance of its transfer-payment agencies with respect to both program/client outcomes (changes in clients' conditions brought about by services provided) and program outputs (the types and amounts of both services provided and clients served). Such monitoring would enable the Ministry to determine whether its expectations were met and, where necessary, to take corrective action.

However, the Ministry still does not effectively monitor performance against measurable and meaningful performance targets, for either program/client outcomes or program outputs, despite similar findings having been identified in both our 1993 and 1997 audits of the CFI program. As noted in our 1993 audit, the Ministry had identified the need to improve transfer-payment-agency accountability by measuring agency effectiveness. Again in 1997, in response to one of our recommendations, the Ministry agreed that "it needs to establish measurable performance targets and indicators and monitor the results achieved against the targets established."

Although individual agency performance is still not currently being effectively measured against pre-established targets, some progress has been made. For example, with respect to program/client outcomes, we understand that the Ministry has selected two tools that are in the process of being implemented in some agencies:

- an intake assessment tool for determining the type and severity of a child's need at the time of intake; and
- a performance measurement tool that can be used in certain situations to assess a child's current condition and the child's improvement over time.

In establishing a child's initial condition and measuring changes in the child's condition while being treated, these tools could provide valuable information about program effectiveness. However, it has not yet been decided whether any of the information provided by these tools will be provided to the Ministry by the agencies and therefore whether the Ministry will use the information to assess the outcome of care being provided.

The Ministry also requests quarterly reports from its agencies. The intent of these reports is to compare actual expenditures to those budgeted for and provide planned and actual output information such as the number of individuals served and days of residential-based care provided. The Ministry generally requires that agencies highlight and explain unexpected variances between planned and actual results that exceed 10 percent and suggest appropriate remedial actions. These suggestions are to be reviewed and approved by the Ministry's regional staff.

However, we found this quarterly reporting process to be ineffective for the following reasons:

- Output information about the number of individuals served was often unreliable and misleading and did not appropriately measure the type and amount of services provided.
- Agencies often did not provide the required explanations for, or suggest remedial actions for, unexpected variances between actual and planned results.
- There was often no evidence that the Ministry reviewed the quarterly reports—which means it also did not review and approve the suggested remedial actions.

Recommendation

In order that children who are receiving mental health services are provided with the care and assistance they require, the Ministry should:

- **regularly obtain and assess information about the level and outcomes of the services provided by its community-based service-delivery agencies; and**
- **take the necessary steps to ensure that the existing quarterly reporting process is effective in providing reliable and useful information on both expenditures and service outputs.**

Ministry Response

The Ministry agrees that performance measures are an essential part of the business planning process and provide important information to support funding and program management decisions.

The Ministry has identified the need to enhance its ability to develop more outcome-based measures. Implementation of a ministry-wide strategy to strengthen the performance measurement framework will begin in August 2003. With the implementation of the strategy, the Ministry will focus its performance measurements on outcomes and indicators that reflect the effectiveness of the programs. This plan is consistent with the government's overall performance measurement strategy.

As noted by the Provincial Auditor, the Ministry has implemented a number of initiatives that will help to improve agency accountability and assess effectiveness—for example, standardized common intake and assessment tools that document improvements in children.

Program Co-ordination

The Ministry's April 1997 document entitled "Making Services Work For People" set out a new framework to reshape the social services system that would: focus on the needs of the individual and family; respond more quickly to those needs; and use resources more effectively. Proposed changes to the social services system included introducing the following:

- a single point of access for residential-based services;
- fewer access points for, and greater co-ordination of, other services to help families and individuals gain access to the services that are the most appropriate for their needs;
- a mechanism to provide integrated information about all available services; and
- a case resolution function, whereby those who need help the most receive essential supports first.

Since the time of our last audit, some of the changes have been implemented, partly in order to address previous audit recommendations made by our Office. These include centralized points of access for residential-based services, the co-ordination of services for highly complex cases, and case resolution functions within each region. These changes should help to improve the efficiency of the needs assessment and intake functions for agency services.

CONTROL OF TRANSFER PAYMENTS TO AGENCIES

Agency Funding Requests and Approvals

In our prior audits of various ministry transfer-payment programs, including our most recent audit of the CFI program in 1997, we found that the Ministry lacked the necessary information to make informed funding decisions. Although the Ministry has consistently agreed that informed funding decisions require appropriately detailed budget submissions, we continue to have the same concerns we had in our 1997 audit of the CFI program. Our concerns with the agency budget submissions and the subsequent service agreements the Ministry entered into with agencies are as follows:

- Program descriptions did not provide sufficient detail for the Ministry to assess the specific nature and levels of service to be provided. For example, in many cases, the Ministry could not assess the duration or intensity of services provided, both of which have a significant impact on program costs.
- Many budget submissions combined a number of different programs into one budget request, which makes it impossible to determine and evaluate the reasonableness of the requested funding.
- Some budget submissions contained questionable information that the Ministry did not assess for accuracy or reasonableness. For example, one budget request indicated that a secretary would be paid the equivalent of $178,000 per year. Even though we were advised by the Ministry that a secretary was not actually paid this amount, there was no evidence that the Ministry made any inquiries with respect to this information in the budget request.

In most cases the Ministry continues to provide agencies with the same amount of base funding as was provided in the prior year without assessing the reasonableness of that amount. In many cases, it also provides funding for new initiatives without any needs assessment. As a result, similar services may be funded at significantly different levels, so funding inequities between agencies may be perpetuated; questionable items may be funded; and, after funding is provided for specific agreed-to services, it may be spent for other purposes. For example, information available at the Ministry indicated that:

- The cost of residential Child Treatment care in the regional offices that we visited ranged from $271 to $589 per day, and the Ministry could not explain this variance.
- The Ministry provided two agencies with additional operational funding of $200,000 and $167,274, respectively, to be used for building renovations. The Ministry not only did not assess the reasonableness of these amounts, but in providing the funding it bypassed its own capital expenditure planning and priority-setting process.
- At one regional office, four agencies were to provide early intervention services for children with autism and received funding totalling $1.9 million for this purpose. They spent all of this funding without providing the contracted-for services. The Ministry did not have the necessary detailed information to explain what services had been provided with this funding.

The risk of not providing funding based on assessed need is that those agencies facing significantly increased service demands and cost increases may have to eliminate services to meet their budget. During our audit we noted that a number of agencies have reduced services in order to operate within their historical base funding allocation, which has contributed to the waiting-list problem. For example:

- In February 2001, a consultant conducted a review of the funding arrangements and operations of three agencies. The consultant concluded that these agencies were under-resourced and would have to cut service in order to address funding shortfalls. As a result of these financial pressures and in order to reduce costs, one agency had closed an eight-bed children's residence. At the time of our audit, this agency had 10 children on its residential-based care waiting list. Agency staff estimated that these children would wait an average of 18 months before receiving any residential-based services.
- Another agency closed an eight-bed children's mental health residence as of March 31, 2001 in order to reduce its costs and operate within its funding allocation.

Ministry staff we talked to acknowledged the importance of ensuring that transfer-payment-agency funding is reasonable and commensurate with the services received. However, they also pointed to several practical difficulties in linking funding to need for services, as follows:

- Demands on an agency's services may fluctuate significantly from year to year. As a result, the services provided in a given year, along with the resultant expenditure surpluses or deficits, may not be relevant to the service and funding needs in the following year.
- A significant proportion of an agency's costs are fixed and cannot be reduced even with year-to-year changes in service levels.
- Given that overall program funding is of a fixed amount, providing additional funding to one agency based on assessed needs would by necessity require providing another agency with less funding, which could be problematic.

While we acknowledge that these issues must be taken into consideration, we also stress that funding decisions must take into account changes in the demand for services in order to correct current inequities and prevent future ones.

Recommendation

In order to help ensure that agency funding is equitable and based on meeting the needs of children in every community, the Ministry should:

- **ensure that all agencies include sufficiently detailed, reliable, and relevant information in their program budget submissions;**
- **assess all requests for funding and ensure that the amounts approved are commensurate with the demand for and value of the services to be provided; and**
- **ensure that funding provided is spent for the purposes intended.**

Ministry Response

The Ministry acknowledges the need for detailed information in program budget submissions. Through the annual transfer-payment budget package, the Ministry will reconfirm its requirements for agency funding requests and approvals, that is, that information included in budget submissions is sufficiently detailed, reliable, and relevant; that requests for funding amounts approved are commensurate with the demand for and value of services provided; and that funding provided is spent for the purpose intended. Implementation of a policy framework for children's mental health services will also assist regional offices in identifying service expectations associated with funding. In addition, the Ministry is building on the financial skills of its program supervisors by providing training in financial management and accrual accounting.

Annual Program Expenditure Reconciliations

The Ministry requires that agencies submit an Annual Program Expenditure Reconciliation (APER), together with an audited agency financial statement, no later than four months after the end of the fiscal year. Ministry procedures require that the APER be reconciled to the agency's total expenditures and its approved budget in order for the Ministry to identify any surplus funding. Effective April 1, 2000, Management Board Secretariat (MBS) required that ministries recover all surplus funds, and ministry policy requires that the recovery occur within 24 months of the year-end to which the surpluses relate. The Ministry is to use the audited financial statement to verify that the APER was completely and accurately prepared, and the APER must be approved within twelve months of the agency's year-end.

We continue to question, as we have done for many years, the effectiveness of the APER process. While we found that, for the 2000/01 fiscal year (the most recent year for which the process had been completed), the APERs had generally been received and approved on a timely basis, both the APERs and the audited financial statements lacked the necessary detail to identify expenditures that were inappropriate or ineligible for funding. As a result, the Ministry cannot verify that the APERs have been accurately completed and that surplus funding has been identified and returned. More specifically, we noted the following concerns:

- A majority of the audited financial statements submitted by agencies along with their APERs consolidated a number of different social service programs and represented the financial results of the agency as a whole. Ministry policy allows the submission of such statements only if they include a note detailing the funding surplus or deficit for each program receiving ministry funding. However, we found in our review of a sample of these financial statements that three-quarters of them did not contain the required note. Consequently, the Ministry could not use those audited statements to verify that the APERs reflected actual program expenditures.
- All of the audited financial statements we reviewed were prepared based on a different basis of accounting (the accrual basis) than were the APERs (prepared on a cash basis). Therefore, the financial statements cannot be used to compare with the APERs and to verify that the APERs were correctly prepared.

Accordingly, we continue to question the effectiveness of the review and approval process.

Recommendation

In order to strengthen its financial accountability process, the Ministry should ensure that Annual Program Expenditure Reconciliations (APERs) and audited financial statements contain sufficiently detailed and comparable information to allow for the detection of ineligible or inappropriate expenditure items and funding surpluses. Secondly, the Ministry should develop a more effective process for the review and approval of APERs.

Ministry Response

The Ministry acknowledges the need for strong financial accountability processes and has taken steps to improve the Annual Program Expenditure Reconciliation (APER) form and process. Improvements were made to the 2001/02 APER form by referencing comparable information contained in audited financial statements and service contracts and providing a list of the most common ineligible expenditures. To improve the detection of funding surpluses, the rules for applying financial flexibility have been clarified and added to the 2001/02 APER form.

To improve the APER review and approval process, in 2003/04 the Ministry is providing regional and corporate office staff with training on how to use the

APER more effectively. The government's change to accrual accounting will also positively impact on the APER process.

Surplus Recovery

As noted above, ministry policy requires that all ministry-funded surpluses identified through the APER process now be returned to the Ministry within 24 months of the agency year-end to which they relate. All recovered surpluses are to be transferred to the government's Consolidated Revenue Fund.

In our review of a sample of APERs for the 2000/01 fiscal year, we found that, for surpluses that agencies self-declared, the surplus recovery process was generally initiated within the required time frame. However, we also noted cases at two of the three regional offices we visited in which the process was circumvented and therefore not effective.

Specifically, these offices entered into supplemental service agreements with their transfer-payment agencies that spanned two fiscal years. The terms of these agreements ranged from 10 to 13 months and generally started one or two months prior to the end of a fiscal year. In our review of such agreements, we noted that the Ministry provided the full funding for these agreements at the time of their start date and recorded the entire expenditure in the fiscal year of the start date. However, agencies generally incurred most of the expenditures, and provided the majority of the agreed-to services, in the following fiscal year. Only at the end of the agreement—that is, only in the second fiscal year—were agencies required to account for this funding through the APER process. In effect, these agreements are a means of transferring ministry funding from one fiscal year to the next. They thus circumvent Management Board's requirement and the Ministry's process for identifying and recovering annual funding surpluses through the APER process.

Recommendation

The Ministry should not enter into service agreements that span two fiscal years, since doing so circumvents Management Board Secretariat's requirement to identify and recover annual funding surpluses.

Ministry Response

The Ministry acknowledges this policy requirement and will reconfirm that agreements spanning two fiscal years require the identification and recovery of annual funding surpluses. The Ministry is training staff in the methods of accrual accounting, introduced government-wide in 2003/04, which also will help ensure the identification and recovery of surpluses. The Ministry has also added the rules for applying financial flexibility to the Annual Program Expenditure Reconciliation (APER) form and has clarified these requirements in the APER instructions.

Information Systems

FINANCIAL AND SERVICE INFORMATION SYSTEM

In our 1993 and 1997 audits, we reported that the Ministry did not have a management information system for monitoring financial and service data. Partly in response to our audits, the Ministry implemented a new management information system in August 1998 that captures annual and quarterly financial and service information.

However, we found in our current audit that the Ministry was not using the system to analyze whether programs are funded consistently across the province and whether the Ministry is receiving value for money for the services provided by the agencies.

Furthermore, we found that, even if the Ministry were to use the system for such analysis, the system was of limited usefulness for the following reasons:

- The definition of "individuals served," which is the primary measure the Ministry uses to monitor the majority of agencies' services, was interpreted differently at different agencies. For example, some agencies combine the number of individuals who began receiving service in an earlier period and are continuing to be served with the number of new cases; other agencies report only the number of new cases—individuals who have begun receiving service in the current period. As a result, these statistics cannot be used to analyze financial or service data between agencies.
- In some cases, the management information system either included inaccurate information or lacked the required information. For example, we noted that in a number of cases, an agency's budget and service targets, rather than its actual fourth-quarter results, had been entered into the system. As a result, the system could not show variances between the budgeted and actual results, even when such variances existed.
- A number of different services are not distinguishable from one another within the information system. As a result, the Ministry cannot determine the costs or the service outputs for any particular service. For example, within the CFI Non-Residential program (which accounts for over 40% of total Children's Mental Health Services expenditures, or $127.7 million), services ranging from day treatment to drop-in-centre funding are not distinguishable in the system. In addition, the Ministry cannot compare agencies with respect to their provision of the same service since, when agencies provide more than one type of service, the cost and output data for all services provided are combined for those agencies within the information system.
- Information in the system pertaining to funding for supplemental services provided under contracts spanning two fiscal years is not linked to the services' actual costs and outputs. That is, as previously noted, the system shows the Ministry paying fully for supplemental services in one fiscal year, but the services are mostly provided in the following fiscal year. Also, in many cases, the funding given out for such contracts is not distinguished from the funding given out under the regular single-fiscal-year contracts. As a result, the Ministry cannot determine from the system whether an agency

providing any of the supplemental services overspent or underspent its regular funding allotment. A second result is that the information system may show a significant, but misleading, variance between such an agency's budgeted and actual results—the variance may be partially or entirely due to the mixing together of supplemental service funding information with regular fiscal-year data.

AUTISM PROGRAM INFORMATION SYSTEM

In the 2000/01 fiscal year, the Ministry developed an information system that contains financial and client information for the nine regional autism programs. According to the Ministry, this information is mainly used to help develop new policies for the autism programs. The system contains useful information such as the number of children receiving intensive behavioural intervention service, the number of children waiting for assessment and services and the corresponding waiting periods, and the ages of the children receiving services. However, we also noted the following:

- The system provides only consolidated province-wide information. As a result, the Ministry cannot relate specific data, such as lengthy waiting lists and long waiting times, to specific agencies.
- Ministry staff stated that they were uncertain about the accuracy and completeness of the information in the system.

Without sufficiently detailed and reliable data, the autism program information system is of limited usefulness to the Ministry.

Recommendation

The Ministry should ensure that its management information systems provide sufficiently detailed, relevant, and accurate information in order to help determine whether services provided by transfer-payment agencies are effective and represent value for money spent.

Ministry Response

The Ministry is committed to having information systems that provide the appropriate information to help determine the effectiveness and value for money of services provided by transfer-payment agencies. Since 1997, the Ministry has made significant efforts to enhance Service Management Information System (SMIS) data quality. The Ministry is currently implementing an action plan to improve the management of information on services provided by transfer-payment agencies that includes strengthening reporting timelines, providing infrastructure support, and revising data definitions. Because the Ministry is also using SMIS data more regularly in the development of policy/program initiatives (for example, residential services for children with special needs), the Ministry is making a concerted effort to clean up these databases so that it can be certain that information is sufficiently detailed, relevant, and accurate.

MINISTRY OF COMMUNITY, FAMILY AND CHILDREN'S SERVICES

3.03–Family Responsibility Office

BACKGROUND

Under the authority of the *Family Responsibility and Support Arrears Enforcement Act, 1996*, the Family Responsibility Office (Office) administers and enforces all court-ordered child and spousal support in Ontario, as well as court-ordered support in many other jurisdictions where the payers are resident in Ontario. It also enforces private separation agreements that are voluntarily registered with a court and filed with the Office. At the time of our audit, the Office administered approximately 180,600 family-support cases. We understand that this number represented about half of all marriage breakups in Ontario. Other separation agreements are normally handled without the assistance of the Office.

Support orders and separation agreements may be voluntarily withdrawn from administration by the Office, as long as both parties involved agree to the withdrawal and complete the required forms. We noted that of the four other provinces whose family-support enforcement programs we contacted, three had an opt-in rather than a mandatory system, where all recipients had to voluntarily choose to have their support obligations enforced by the program.

During the 2002/03 fiscal year, the Office collected approximately $561 million from support payers and forwarded a similar amount to support recipients (when we last audited the Office, in 1999, this amount was $500 million). As at March 31, 2003, support payments in arrears totalled approximately $1.3 billion, which represented an 8% increase since our 1999 audit. We also noted that approximately 23,000 support recipients, whose cases were in arrears totalling over $200 million, were receiving provincial social assistance.

Responsibility for the Office was transferred from the Ministry of the Attorney General to the Ministry of Community, Family and Children's Services effective April 9, 2001. The Office has approximately 400 staff, all of whom are located in one central office in Toronto. In addition, the Office maintains a panel of approximately 100 private-sector lawyers to provide family-support litigation services across the province. The Office's operating expenditures for the 2002/03 fiscal year were $28.3 million, of which $19.8 million (70%) was for salaries, wages, and benefits.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit of the Family Responsibility Office were to assess whether adequate policies and procedures were in place to ensure that:

- support orders were enforced effectively and receipts were accurately accounted for and distributed to support recipients on a timely basis; and
- services were delivered with due regard to economy and efficiency and the effectiveness of the services provided was monitored and reported on.

Our audit included a review of the Office's administrative policies and procedures, interviews with appropriate staff, and an assessment of a sample of case files and pertinent summary information and statistics. Information was also obtained from external parties, such as the Office of the Ombudsman, and from family-support enforcement programs in other jurisdictions.

At the beginning of our audit, we identified the criteria that would be used to address our audit objectives. These criteria were reviewed and agreed to by senior Office management. Our audit work was primarily conducted during the period October 2002 to March 2003, with emphasis on program policies and procedures in place during the 2002/03 fiscal year.

Our audit was conducted in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants. Accordingly, it included such tests and other procedures that we considered necessary in the circumstances.

We did not rely on the Ministry's Comprehensive Audit and Investigations Branch (internal audit) to reduce the extent of our audit work because it had not conducted any audit work at the Office during the past two years.

OVERALL AUDIT CONCLUSIONS

As was the case at the time of our last audit, in 1999, we concluded that the Family Responsibility Office did not have satisfactory systems and procedures in place for initiating contact and taking appropriate and timely enforcement action where payers were in arrears on their family-support obligations. In fact, it is our view that, unless the Office takes aggressive enforcement action, supported by effective case management and significantly improved information technology and communications systems, it is in grave danger of failing to meet its mandated responsibilities. We found that the Office's services were impaired, and we had the following concerns:

- Unlike most other provinces, which use a process of individual case management, Ontario does not assign each case to an individual caseworker. Therefore, no one individual has responsibility for or is held accountable for the administration of most cases. In addition, although we were advised that in practice the Office has assigned cases with outstanding arrears greater than $50,000 to caseworkers since 2001, approximately 1,500 such cases, with arrears totalling $126.7 million, were not assigned at the time of our audit in November 2002 and were therefore not actively monitored or enforced.

- Since 1994, the number of caseworkers has declined by 20%, whereas the number of cases has increased from 126,000 to 180,600. As a result, the average number of cases per caseworker has steadily increased. For example, the number of cases with outstanding work items assigned to senior caseworkers now ranges from 600 to more than 1,300, averaging 890 per caseworker. By comparison, the average caseloads in Quebec and Alberta were 400 and 335, respectively. The Office has not established criteria or standards for determining a manageable workload. This may well have been a key factor as to why, since 1994, arrears have increased by $600 million and cases with amounts in arrears have increased by 40,000.
- The Office's practice of commencing enforcement action only after being notified by recipients of non-payment resulted in unreasonable delays in enforcement. On average, seven months elapsed between the time support fell into arrears and the time the Office initiated the first enforcement action.
- More than half the cases in arrears we reviewed had inordinately long gaps, often as long as two years, between enforcement actions.

Staff efforts to enforce support obligations and to provide responsive services continue to be significantly hampered by the Office's inability to develop and implement the necessary improvements to the computer system. We recommended in our 1994 report that the Office improve its computer systems and ensure that the deficiencies identified were corrected. In response to our recommendation then, and again in our follow-up report in 1996, the Ministry stated that "the current computer system must be replaced." However, the same computer system continues to be used even though it cannot provide timely and appropriate information to facilitate client service or management of the program. If the Office successfully implements the improved integrated service-delivery model and the integrated information management system outlined in the business case recently submitted to the Minister, many of our concerns could be addressed.

We also found a lack of due regard for economy and efficiency inasmuch as:

- a number of cases with significant arrears were not assigned to caseworkers and therefore not actively enforced;
- arrears were not aged to determine how long amounts have been outstanding and to assess their collectibility; and
- almost 90% of telephone calls to the call centre made from outside Toronto were blocked and therefore not answered, and this required clients to call repeatedly in order to get through to have their questions answered.

Senior management of the Office was aware of a number of the needed improvements noted in this report and had prepared a business case outlining the current problems and proposed corrective actions. We understand that, at the end of our audit, the business case was being reviewed by the Minister of Community, Family and Children's Services.

In our review of the quarterly reports prepared for Management Board Secretariat and internal management of the Office, we found that they did not disclose information necessary to assess the efficiency and effectiveness of the Office.

Our review of a sample of new family-support orders and separation agreements received by the Office noted that these cases were registered and collection action initiated within the targeted 30-day time period. In the financial transactions we sampled, we also found that the accounting controls over support payments received and disbursed were satisfactory. In most cases, support payments received were generally disbursed within 48 hours of receipt.

Overall Office Response

The Office supports the Provincial Auditor's overall conclusions about the Family Responsibility Office and, as noted by the Provincial Auditor, has prepared a business case outlining many of the current problems and proposed corrective actions. However, the Office will be limited in its ability to address many of the specific audit recommendations with its current service-delivery model and limited supporting technology until a new service-delivery model with state-of-the-art supporting technology is implemented.

With an increase of 1,200 to 1,400 new cases every month, the Office cannot meet many of the audit recommendations without significant change to its business model and systems technology. From the huge number of calls that do not get through to the call centre to the lack of technology to support bring-forward actions, the Office is trying to manage the high volume of inquiries and resolve client complaints as best it can.

Should the Office receive approval from Cabinet to implement an improved service-delivery model and supporting technology, the Office should be able to realize significant improvements in both enforcement and customer service that will address many of the concerns outlined in the Provincial Auditor's Report.

DETAILED AUDIT OBSERVATIONS

Each year, the Family Responsibility Office registers approximately 18,000 new cases and closes about the same number of previously active cases. The Office's goal is to register new cases within 30 days of receipt of all the required documentation, at which time filing information packages are sent to the support payer and recipient, and in most cases support deduction notices are sent to the payer's known income sources.

Although payers may make support payments directly to the Office, in most cases support payments are withheld by income sources and are remitted by them to the Office. Support payments received by the Office are to be forwarded to the recipient within 48 hours of their receipt by the Office. When a payer is in partial compliance or non-compliance with his or her support obligations, the Office may take a number of progressively aggressive enforcement actions on receiving initial notification of non-payment or partial payment by the support recipient.

At the time of our audit, approximately one-third of all payers were in full compliance with their support obligations, one-third were in partial compliance—defined as meeting at least 85% of their current monthly obligations—and one-third were in non-compliance. We note that the definition of partial compliance has changed since the time of our last audit; therefore, a comparison of compliance rates is not meaningful.

Detailed information about the status of their accounts with the Office is available to both support payers and recipients through the Office's toll-free call centre. Limited account information can be obtained from an automated telephone inquiry line, and general information about the Office can be obtained from the Office's Web site.

On April 1, 2000, the Office introduced a number of fees as shown in the following table.

Administration Fees

Type of Fee	Amount
Additional director's statement of arrears	$25 per statement (after the first statement request)
Postdated cheque	$10 per cheque
Adjustment to records after direct payment of support to recipient from payer	$100
Confirmation letters re: real estate transactions	$150
Aggressive enforcement process	No more than $400 in a 9-month period

Source of data: The Family Responsibility Office

We noted that for the fiscal year ended March 31, 2003, the total administrative fees collected by the Office were $744,366.

ENFORCING SUPPORT OBLIGATIONS AND RELATED MATTERS

Many of the following concerns were well known to senior management of the Office and a business case had been prepared outlining the current problems and proposed corrective actions. At the end of our audit, we understand that the Minister of Community, Family and Children's Services was reviewing the business case.

Case Registration

Requests to register and enforce family-support orders and separation agreements are received in the Office's intake unit, where they are reviewed. If the information provided is complete and accurate, the Office's goal is to register the case and initiate enforcement action within 30 days of receipt of the information. Our review of a sample of case files registered during the 2002/03 fiscal year found that in approximately 90% of the cases the initial information received was complete and accurate. Generally, these cases were registered and enforcement was initiated within 30 days.

Support orders and separation agreements that are incomplete or that contain contradictory information cannot be registered and are instead returned to the sender for completion or clarification. However, the Office did not have adequate procedures in place to ensure that the required information or clarification was received back on a timely basis and to follow up when it was not. In these instances, registration and enforcement were delayed on average for about three-and-one-half months, and in some cases for as long as eight to ten months. Such situations can create serious financial hardship for the affected recipients who rely on the Office to ensure they receive their support payments.

Recommendation

To ensure the Office fulfills its responsibilities to collect and forward support payments to families, it should ensure that it receives all the required information for registering and enforcing support obligations on a timely basis and promptly initiate follow-up action when it does not.

Office Response

In many cases, the Family Responsibility Office does not have full control over all the information it needs to register and enforce support obligations in a timely manner because it necessarily relies on others to provide it with the required information. However, the Office will continue to develop outreach plans to work with the appropriate stakeholders (e.g., courts, lawyers, and so on) who have responsibility for forwarding case registration information to the Office.

Currently, consistent and timely follow-up by the Office is still strongly hampered by the lack of technology that supports bring-forward notes and automatic reminders. Should the Office receive approval to implement the proposed new service-delivery model and supporting technology, it is expected that there will be significant improvement in case registration processes and in the ability to ensure prompt follow-up on any outstanding information that is required before the Office can take action.

The Office will also undertake a review and redesign of its filing package to help clients better understand what information is required and to make it easier for them to fully complete the package.

Document Scanning

The Office's intake unit receives approximately 1,300 faxes and 2,300 pieces of mail relating to active cases per day. The Office requires that all these documents be scanned. Scanned documents are to be available electronically to all caseworkers for case administration purposes and for answering inquiries through the Office's call centre.

We found, however, that the document-scanning and retrieval process was not working as intended for the following reasons:

- In some cases, documents that should have been scanned were not.
- Some scanned documents were of such poor quality that they were unreadable.
- The Office's scanning equipment cannot scan blue ink, but the documents sent out by the Office for respondents to complete do not request that blue ink not be used.
- The computer system that provides caseworkers access to scanned documents is typically out of service for about one hour per day and this results in lack of access to required information when caseworkers answer client inquiries.

These document problems are particularly detrimental to the productivity and efficiency of staff assigned to the call centre.

Recommendation

In order for all necessary case documentation to be available on a timely basis for administering cases and for answering telephone inquiries, the Office should ensure that:

- **all necessary case documentation is scanned;**
- **scanned documents are of an acceptable quality; and**
- **system downtime is minimized.**

Office Response

The Family Responsibility Office is aware that the current document-scanning and retrieval process is a problem. Last year, in order to address the issue, the Office undertook a rigorous review process for acquiring a new document-scanning system. Following Management Board of Cabinet guidelines, the Office made a recommendation for replacing the current system with a system that is much faster and more efficient and meets the business needs of the Office.

A vendor has been chosen and the new document-scanning system should be in place in fall 2003. Successful implementation of the new system will include appropriate training, as well as ensuring that appropriate policies and procedures are in place and adhered to by staff.

Case Management Model

As it did at the time of our last audit, in 1999, the Office continues to manage its caseload on an "issue management" basis. In this method, any caseworker can answer inquiries with respect to a particular file and perform simple tasks—for example, processing an information update such as an address change. However, certain tasks that require in-depth knowledge of the case and potential follow-up at some future date can be performed only by senior caseworkers who temporarily assume exclusive jurisdiction over that case until the issue is resolved.

Although the issue management model has some obvious advantages, such as providing maximum flexibility in responding to case inquiries and processing the many routine information updates that are often necessary, our view continues to be that it has a number of significant shortcomings that include the following:

- Since the majority of cases are not assigned to caseworkers, no one individual has responsibility for administering them. In that regard, we note that, although we were advised that in practice the Office has assigned cases with outstanding arrears greater than $50,000 to caseworkers since 2001, approximately 1,500 such cases, with arrears totalling $126.7 million, were not assigned at the time of our audit in November 2002 and were therefore not actively monitored or enforced.
- Since a caseworker in effect voluntarily assumes responsibility for a case as a result of fielding an inquiry or complaint, assigned caseloads vary significantly. They range from about 600 cases to, in one instance, more than 1,700 cases per caseworker.
- Many caseworkers often worked on the same case over a period of time. For example, our review of a sample of case files found that on average seven different caseworkers worked on the same case over a period of five years. In one instance, 34 different caseworkers worked on the same file over the same five-year period.

We understand that Ontario is one of two provinces that have not adopted a case management service-delivery model where a specific caseworker is assigned to each case. The benefits of assigning a caseworker to each file are that the performance of all caseworkers in collecting arrears can be monitored and ongoing familiarity with the case details facilitates effective collection action.

Recommendation

To help ensure that effective and timely enforcement actions are taken, the Office should review its case management practices and consider assigning the responsibility for each case to an individual caseworker.

Office Response

Since 1996, the Family Responsibility Office has operated under an "issue management" system, rather than a case management system. The Office recently completed a comprehensive feasibility study with an intensive review of alternative case management options. In particular, the case management systems of other enforcement jurisdictions were reviewed to determine if they would work here in Ontario.

As a result, the Office has developed a proposal to implement an Integrated Service Delivery Model—a comprehensive case management model—that includes integrated teams for providing client service. The Ministry is currently reviewing the proposal for this model, and it is hoped that the proposal will be approved by Cabinet shortly.

Caseloads

A manageable caseload is a prerequisite for caseworkers to administer family-support cases adequately. At the time of our audit, the Office had approximately 160 staff who worked part-time on enforcement and case administration and part-time in the Office's call centre. Specifically, 100 of these were senior staff members who were more experienced and answered calls for three hours per day and 60 were junior staff members who answered calls for four-and-one-half hours per day. The time not spent answering calls was used primarily for individual case administration and enforcement.

Even though high caseloads were a concern at the time of our 1999 audit, the average number of cases per caseworker has steadily increased over the years as detailed in the following table.

Number of Cases per Caseworker, 1994–2003

	March 2003	March 1999	March 1994
Total cases	180,600	170,000	126,000
Number of caseworkers	160	200	200
Cases per caseworker	1,129	850	630

Source of data: The Family Responsibility Office

In addition, the number of case files assigned to senior caseworkers with outstanding work items (see the next section on "Bring-forward Notes"), generally ranged from approximately 600 to more than 1,300, and averaged 890.

Although increased caseloads may be justifiable when there have been improvements in business processes or information technology support, this has not been the case in Ontario over that time. We also note that in comparison, similar family-support enforcement programs in Quebec and Alberta had an average caseload of 400 and 335 cases per caseworker, respectively.

Recommendation

To help improve the administration of family-support cases in a timely and effective manner, the Office should establish criteria and standards for manageable caseloads and staff accordingly to ensure that the standards are met.

Office Response

As previously noted, the Family Responsibility Office has reviewed alternative service-delivery models and recognizes that there must be a move towards a case management system with supporting technology (rather than an issue management system). This move is pending the Ministry's decision on the options provided by the Office.

Under the proposed case management system, enforcement officers would have cases assigned to them and be directly responsible for those cases over the long term, rather than working in a call centre capacity as they do now. This would ensure that each case is followed through from beginning to end and that the appropriate follow-up is completed. The shift to a case management model would assist in ensuring manageable caseloads as enforcement officers would be able to spend their time focusing on enforcement and not on call centre shifts. A small call centre to handle general inquiries would still operate.

Should the Office receive approval from Cabinet to implement the proposed case management model and supporting technology, the Office will develop appropriate criteria and standards for manageable caseloads. With 1,200 to 1,400 new cases each month, the Office believes that the proposed system would help to realign resources and create more manageable caseloads.

Bring-forward Notes

As a result of either a client inquiry or enforcement action undertaken, caseworkers often enter a bring-forward note into the computerized case-file information system. The bring-forward note is an automatic reminder to a caseworker that the inquiry or enforcement action needs to be followed up on, usually within 30 days of placing the note on file.

Our review of outstanding bring-forward notes for a sample of caseworkers found that for many there was no follow-up on a timely basis. The number of bring-forward notes that were not followed up on within the required 30 days ranged from 46 to more than 800 per caseworker, and averaged more than 300. In addition, many of the outstanding bring-forward notes were more than a year old, indicating that required action had not been taken for a very long time.

Recommendation

To help ensure that client inquiries and enforcement actions are dealt with appropriately, the Office should ensure that all caseworkers conduct the necessary follow-up work on a timely basis.

Office Response

The Family Responsibility Office is committed to ensuring timely follow-up of client inquiries and enforcement actions. Only when a new case management model with supporting technology is implemented will the appropriate tools (for example, bring-forward notes and automatic prompts) be in place to ensure timely follow-up for each case. The proposed technology will also provide better monitoring reports for management to use to ensure that caseworkers conduct the necessary follow-up work.

Support Enforcement Action

At the end of 2002, approximately 136,000 or three-quarters of all active cases registered with the Office were in arrears. Arrears totalled approximately $1.3 billion, an 8% increase from the time of our 1999 audit. Since 1994, arrears have increased by $600 million and cases with amounts in arrears have increased by 40,000. A breakdown of the amount in arrears by amounts outstanding for individual accounts is provided in the following table.

Total Cases with Amounts in Arrears as at December 31, 2002

Amount in Arrears ($)	Number of Cases	% of Total Cases	Arrears ($ million)	% of Total Arrears
Less than 5,000	82,613	60	105.8	8
5,000–9,999	17,315	13	125.2	9
10,000–24,999	20,893	15	335.1	25
25,000–49,999	10,356	8	360.4	27
50,000–99,999	3,924	3	260.3	19
100,000+	999	1	161.4	12
Total	**136,100**	**100**	**1,348.2**	**100**

Source of data: The Family Responsibility Office

We note that although the Office did not track how long the amounts in arrears had been outstanding, either individually or in total, many were thought to be more than a year old.

Taking the appropriate enforcement action on a timely basis is essential if the Office is to effectively collect support payments in arrears. In conducting enforcement action, caseworkers are to follow a series of steps prescribed in the Office's "enforcement tree." The tree begins with a series of passive steps that escalate progressively to more aggressive steps as outlined below.

Initial passive enforcement steps include:

- permitting the payer to enter into a voluntary arrears payment schedule to pay off arrears owing;
- obtaining federal garnishment of 100% of the payer's income tax refund;
- obtaining a writ of seizure and sale to secure any proceeds in the event of a disposal of assets by the payer;
- intercepting lottery winnings; and
- reporting the payer to the credit bureaus.

More aggressive enforcement steps include:

- garnisheeing the payer's bank account;
- suspending the payer's driver's licence;
- suspending federal licences and passports;
- taking the payer to court for a default hearing; and
- transferring the debt to a private collection agency.

Based on the timelines established for each step in the process, we estimated that from beginning to end, enforcement action ought to be completed in approximately one-and-one-quarter years.

However, our review of a sample of case files for which enforcement actions were taken found that the steps were often neither timely nor effective. For example:

- The Office's practice of commencing enforcement action only after being notified by recipients of non-payment resulted in unreasonable delays in enforcement. On average, seven months elapsed between the time support fell into arrears and the time the Office initiated the first enforcement action. In one case, enforcement action was initiated 18 months after the case first went into arrears.
- More than half the cases we reviewed had inordinately long time gaps between enforcement steps. Time gaps of two years were common.
- On average, it took the Office three-and-one-half years to complete the entire enforcement cycle, and in one case it took eleven-and-one-half years.

These delays in enforcement actions often made it difficult to locate the payer and collect the amounts owed to the support recipients. In addition, there was no evidence that supervisory staff reviewed the case files or were even aware of the time delays in conducting the required enforcement measure.

Recommendation

To help ensure the effectiveness of its enforcement actions in collecting support arrears, the Office should:

- **identify accounts in arrears on a more timely basis and initiate contact with the defaulting payer as soon as possible;**
- **adhere to the established timetable for the prescribed enforcement steps in a timely manner; and**
- **ensure supervisory staff monitor case files for compliance with the prescribed steps and established timetable and where necessary take corrective action.**

Office Response

The Family Responsibility Office has in place policies and procedures to ensure the effectiveness of its enforcement actions. However, consistent and timely follow-up of enforcement and compliance is hampered by the current issue management business model and lack of appropriate supporting technology.

The Office has implemented a strategy to increase aggressive enforcement action. Currently, all arrears over $50,000 are assigned to individual client-

services associates until the cases are in compliance. Supervisors regularly monitor and act on these cases to ensure timely enforcement.

The Enhanced Collection Agency Project is another initiative, in which the age of arrears is used to determine which cases will be referred to the project.

Enhanced Collection Agency Project

In October 2001, the Office entered into a three-year agreement with four private collection agencies to pursue collection efforts in up to 40,000 cases where support payments were not received in over six months and all of the Office's prescribed efforts to enforce payment were ultimately not successful.

Under the terms of the agreement, the agencies are paid a commission based on funds collected in excess of the payer's ongoing monthly support obligations. In all cases, the applicable commission is added to the payer's outstanding arrears balance.

At the end of January 2003, about 18,750 cases with arrears totalling $290 million had been transferred to the collection agencies. Approximately $2 million net of commissions of about $400,000 has been collected by these agencies and transferred to the Office.

In our review of a sample of files transferred to the collection agencies, we found that they all met the criteria for transfer. We also noted that agency commissions were correctly determined.

Payment Processing

For the 2002/03 fiscal year, the Office processed on average 7,600 transactions totalling approximately $2.4 million daily. About 60% of all payments received by the Office were made through manually prepared remittances, usually cheques, and about 40% were remitted electronically. More than 80% of all disbursements were issued through direct deposit to the recipient's bank account. The Office's targeted turnaround time from the time the payment is received to the time of disbursement is 48 hours.

In our review of a sample of financial transactions, we found that the accounting controls over support payments received and disbursed were satisfactory. In most cases, support payments received were disbursed within 48 hours of receipt.

IDENTIFIED SUSPENSE ACCOUNT

When the recipient is known, there are two primary reasons why some receipts may not be disbursed within 48 hours. Financial reasons, such as the need to pro-rate a receipt between two related accounts or the need to wait for a payer's cheque to clear the bank, and enforcement reasons, such as the need to wait for a varied court order, may delay payment to recipients. Such receipts are temporarily held in the identified suspense account.

At the end of January 2003, the balance in this account was $1.7 million. Office policy requires that finance staff clear and disburse most receipts held for financial reasons within 24 to 48 hours (10 days for payments awaiting a cheque's bank clearance). For amounts held for enforcement reasons, caseworkers are to resolve and transfer amounts held within 90 days. Receipts that cannot be transferred within 90 days need to be reviewed again within every 90 days thereafter.

In our review of a sample of items in this account, we found that:

- almost half the receipts held for enforcement reasons were not cleared within 90 days and were held on average for about three years—in one case, a receipt had been held for almost 10 years; and
- half the receipts held for financial reasons were not released within the required 48-hour time frame; in fact, on average, these receipts were held for five months.

UNIDENTIFIED SUSPENSE ACCOUNT

Receipts that cannot be readily attributed to a specific case are temporarily held in the unidentified suspense account for further investigation. Funds are held in the suspense account until such time that they can be disbursed to the appropriate recipient.

At the end of January 2003, the balance in this account was $1.75 million. Office policy requires that finance staff initiate an investigation within 48 hours of receiving funds for which the intended recipient is not clear, so that this recipient can be identified and the money forwarded. This may involve searching the office database or contacting the person or institution remitting the funds. There is no specific requirement to follow up on items that cannot be resolved by this first investigation, and these receipts are held in the account until the necessary information is received.

We reviewed a sample of items in this account and found that in most cases unidentified receipts were investigated, identified, and forwarded to the intended recipient within 48 hours. However, documentation supporting the identification of the intended recipient was often lacking and there was no evidence of management approval of the release of funds. Given the need for very strong internal controls over this area, we believe these weaknesses represent a high-risk area for the Office. It is therefore essential that subsequent disbursements need to be well controlled.

We also noted that an aging of the remaining items in the account found that approximately $1 million (58%) of the balance was over one year old.

Recommendation

To ensure that internal controls are strengthened and that all support payments received are forwarded to the intended recipient on a timely basis, the Office should:

- **follow up on and resolve all items in both the identified and unidentified suspense accounts on a timely basis;**
- **adequately document the basis on which initially unidentified receipts were identified and management approval of the release of such funds.**

Office Response

The Family Responsibility Office processes over 95% of payments received within 48 hours. Only 0.3% of the total payments received in a year represents items in both the identified and unidentified suspense accounts. Monies are usually diverted into suspense accounts for reasons beyond the Office's control (for example, the need to wait for a decision of the courts, correspondence from lawyers or response from an income source that indicates some sort of change, no case identification, and so on). The funds are released as quickly as possible from the suspense accounts after required information is returned to the Office. The Office continues to ensure that payments in suspense accounts are processed as quickly as is practical.

As the Provincial Auditor indicates, the majority of the unidentified funds received by the Office are adequately researched and validated, according to the Office's existing policies and procedures, before the funds are released. The Office will commit to regular management control checks to ensure that the policies are being adhered to.

Interest on Arrears

Both our 1994 and 1999 audit reports noted that the Office did not calculate and pursue interest on support arrears provided for under the terms of many support orders, even though the Office is legally responsible for enforcing all aspects of a support order.

In response to our 1999 recommendation that the Office calculate and pursue interest on all arrears where interest is required under the applicable court order, the Office indicated that its computer system was unable to calculate and accrue interest owing and that it was not efficient or economical for caseworkers to calculate manually the amount of interest owing. It is still the Office's view that this continues to be the case, although we understand that recipients are now encouraged to file annual statements for interest owing on arrears.

As a result, interest on arrears continues to be pursued only if the recipient calculates the amount of interest owing and provides the amount owing to the Office in a sworn statement.

Recommendation

To help ensure compliance with support orders and to encourage prompt payment from payers, the Office should compute and charge interest on arrears for those cases where the court orders stipulate that interest is applicable.

Office Response

This is not a new recommendation for the Family Responsibility Office, and it continues to be the Office's view that, until the Office has new supporting technology, it is not practical to calculate interest on arrears.

Thus, the responsibility for calculating the interest rests with the recipients, who have the information concerning when payments were due, the dates payments were made, and any resulting interest accrued.

Customer Service

Prior to December 1996, the Office operated out of eight regional offices and each office provided customer services, including counter service, to area clients. Effective December 1996, the Office closed its regional offices and consolidated all its operations into one centralized office in Toronto.

Since that time, the Office has operated a toll-free call centre that is the primary means for clients to communicate with the Office, in addition to written correspondence. The call centre's hours of operation are Monday to Thursday from 8 a.m. to 7 p.m. and Friday from 8 a.m. to 5 p.m. There are separate telephone numbers for calls originating within and outside the Toronto calling area. We understand that Ontario's call centre is open for more hours than call centres in other provinces.

Although the Office monitors some information with respect to the call centre—the number of calls answered, average waiting times for answered calls, and the average length of each call—it does not regularly monitor the number of calls blocked (that is, calls receiving a busy signal). A one-time study of blocked calls for the three months March to May 2001 inclusive found that the number of calls blocked were substantial as shown in the following table.

Number of Telephone Calls, March–May, 2001

Origin	Blocked Calls	Answered Calls	Total Calls	% Blocked
Outside the Greater Toronto Area				
• # of calls	860,604	106,261	966,865	89
• per day	13,660	1,687	15,347	
Within the Greater Toronto Area				
• # of calls	27,818	47,536	75,354	37
• per day	442	755	1,196	

Source of data: The Family Responsibility Office

Approximately 130 caseworkers answer calls for an average of about four hours per day. Each caseworker is expected to answer six calls per hour. As a result, the call centre ought to be able to answer about 3,000 calls per day, substantially fewer than the 16,500 calls that are attempted. The Office's telephone system allows up to 66 calls to be placed in a queue to await the next available caseworker. Any additional calls receive a busy signal and are in effect blocked.

Even though repeat calls accounted for some of the calls blocked, there is no question that the call centre is not adequately resourced to answer all calls within a reasonable time. As well, fewer calls were answered than expected because on average:

- about 14% of the caseworkers were not available for answering calls because of medical-related reasons, such as stress or illness;
- caseworkers who staffed the call centre did so for on average a half-hour less per day than they should have; and
- caseworkers in fact answered 3.6 calls per hour, significantly fewer than the expected six calls per hour, so that rather than the targeted 3,000 calls per day being answered, only 1,900 calls on average are answered.

In contrast, we placed calls to the call centres for several other provincial family-support programs and found that on average our calls were answered within five minutes. Similarly, we noted that the Australian family-support enforcement program implemented a service standard requiring that 90% of incoming calls be answered within two minutes. According to a recent audit report of the Australian program, this standard is consistently met.

Recommendation

Since the call centre is the primary means whereby clients communicate with the Office, the Office should review its call centre operations and take the steps necessary to ensure that all calls are answered or responded to within a reasonable period of time.

Office Response

The Family Responsibility Office acknowledges that there is a large number of calls that do not get through. However, it should be noted that the Office has taken a number of steps to foster improvements in this area. These include:

- ***hiring a call centre co-ordinator;***
- ***introducing a call monitoring process, along with monitoring and coaching workshops;***
- ***preparing a "monthly snapshot" report combined with more frequent performance meetings; and***
- ***introducing a complaint and compliment tracking form.***

However, the Office is limited in its ability to improve the number of clients gaining access to the call centre, particularly because of the increasing caseload each year. Should the Office receive approval to implement a new service-delivery model and supporting technology, clients will have direct access to assigned caseworkers, reducing call centre backlogs and increasing client satisfaction.

Call Centre Alternatives

Clients of the Office can also access very limited information about their accounts through the Office's automated telephone system, or they can obtain general program information and download various program forms from the Office's Web site. The automated telephone line and the Web site operate seven days per week, 24 hours per day. We noted that from April to December 2002 inclusive, on average about 400,000 calls were made each month to the automated telephone line.

However, the automated telephone line and the Web site are limited in their usefulness because they are not interactive. For example, clients cannot request account statements or report information changes related to their cases. They also cannot communicate with caseworkers about any aspect of their accounts, which would reduce the number of calls to the call centre.

Our research of a number of jurisdictions in Canada found that two provinces (Alberta and British Columbia) had interactive Web sites that enabled clients to report changes in their personal information or access a wide range of information about their account.

Recommendation

To help alleviate the demand for information and services through the Office's call centre, the Office should consider expanding access to detailed account information and the range of services available through the automated telephone line and Web site.

Office Response

The Family Responsibility Office is implementing a Personal Identification Number (PIN) project to provide more information and protected access for its clients who call the automated-voice information line.

The PIN project was a recommendation of the Office of the Information and Privacy Commissioner (IPC), and has been undertaken with the support of that office. As the PIN project is implemented, the Family Responsibility Office will continue to work with the IPC.

The recommended approach is a phased implementation of the PIN initiative. Phase 1, the first of three phases, will provide access to the automated-voice information line, where callers who have been assigned PINs (specifically, support recipients and support payers) can obtain more personal information than what is currently provided. Phase 1 will also provide the foundation for future phases (2 and 3), in which agents will be able to verify callers' identity using their PIN and which will see the expanded information from the automated-voice line also made available on the Internet using PIN access. Full implementation of the PIN initiative will be a component of the new Integrated Service Delivery Model.

Computer System

The Office's current computerized information system was initially developed in the mid-1980s primarily for registering cases and as a bookkeeping system to track receipts from payers and disbursements to recipients. The system, known as Maintenance Enforcement Computerized Accounting (MECA), was developed in COBOL using an IBM database at a time when the caseload was about 53,000 (it is currently about 180,000). In 1989, the system was enhanced to include certain case management information and reporting modules that are still used.

By the 1990s, limitations in the computer system posed considerable problems in the Office's consolidation and transition to a call centre–based business model. As a result, the Office added a front-end interface to the computer system—Family Responsibility Office New Technology (FRONT)—whose primary purpose was to retrieve the most frequently sought information from the existing computer system and post it onto more user-friendly screens so that client inquiries through the call centre could be dealt with more efficiently. However, because FRONT is still dependent on MECA, which is now almost 20 years old, many of the primary computer system's performance problems remained. Many of these have been known for a long time and include:

- Programming enhancements take considerable time and are expensive, partly because of poor or missing system documentation. In fact, in many cases the Office is reluctant to program system changes for fear of making the whole system unstable.

- Since only limited information is available in FRONT, caseworkers often still have to undergo a cumbersome and time-consuming process to obtain desired case information from MECA.
- Management is not provided with the necessary information for monitoring and assessing whether the program is delivered efficiently or effectively. For example, required information about the many aspects of case administration by caseworker or aging of amounts of support in arrears simply isn't readily available.

Nine years ago, we recommended in our 1994 report that the Office improve its computer systems and ensure that the deficiencies identified were corrected. In response to our recommendation then, and again in our follow-up report in 1996, the Ministry of the Attorney General stated that "the current computer system must be replaced."

In response to our recommendations in 1999, the Ministry of the Attorney General stated that the Office would address the performance of the computer system by:

- doing an architectural review of the MECA system once the Y2K freeze was over;
- hiring a consultant to do an availability and reliability audit of the whole system, and make recommendations; and
- upgrading the document-imaging software and database server in order to handle the higher volume of users.

At the time of our audit, there had been no substantial changes made to the computer system. As noted earlier, the Office is well aware of the computer system's limitations and has submitted a business case for acquiring a new computerized integrated information system in conjunction with a new service-delivery model.

Recommendation

We urge that the process of implementing the needed computer support for the Office's operations be significantly accelerated.

Office Response

The Family Responsibility Office has made improvements in the performance of its current computer system but needs to replace the system in order to keep up with the demands of Office operations. A new service-delivery model to meet the Office's business needs, supported by new technology, is needed.

The Office undertook a business planning review and feasibility study of systems requirements and prepared recommendations for a new case management model with supporting technology. This submission is currently under review for approval and funding.

PERFORMANCE MEASUREMENT

Reporting Program Effectiveness

The mandate of the Office is to ensure compliance with all registered family-support obligations and where necessary take appropriate enforcement action while treating both payers and recipients fairly. By assessing and reporting on the achievement of this mandate, the Office can demonstrate its effectiveness and can identify areas that need improvement.

The Office prepares monthly and quarterly internal management reports, as well as a quarterly report that is submitted to Management Board Secretariat. Although the Office does not prepare a report specifically for the Ministry of Community, Family and Children's Services, we understand that the Ministry is provided with a draft copy of the report prepared for Management Board.

The reports generally provide statistical indicators for the following:

- the number of cases under administration;
- the total amount of support payments collected and in arrears, as well as the compliance rate;
- the number of telephone calls answered;
- the type and number of enforcement actions taken; and
- the number of cases assigned to the Ministry.

The preceding information gives the reader a general sense of the type and volume of activity undertaken by the Office; however, it does not provide the data necessary to assess the effectiveness of the Office and to identify areas in need of improvement. Examples of required information for these purposes include:

- the number of cases with significant arrears not assigned to a caseworker and therefore not subject to enforcement action;
- the timeliness of enforcement actions taken on assigned accounts;
- the number of telephone calls to the call centre that were blocked and therefore not answered;
- the aging of support arrears and an assessment of their collectibility; and
- the nature and number of complaints received from all sources.

We also note that the only publicly disclosed performance measure is the number of accounts in full or partial compliance with their support obligations. For both the 2000/01 and the 2001/02 fiscal years, the actual compliance rate of 67% was slightly below the targeted rate of 71%.

Recommendation

To help ensure and be able to assess whether family-support obligations are effectively enforced and that areas in need of improvement are identified, the Office should measure and report on additional results indicators, such as:

- **the number of cases with significant arrears not assigned to a caseworker and therefore not actively enforced;**
- **the timeliness of enforcement actions taken on assigned accounts;**
- **the number of telephone calls to the call centre that were blocked and therefore not answered;**
- **the aging of support arrears and an assessment of their collectibility; and**
- **the nature and number of complaints received.**

Office Response

The Family Responsibility Office agrees with this recommendation but is limited in its ability to address these issues with the current system and information technology. Should the Office receive approval to implement a new service-delivery model and supporting technology, the new system will generate a number of relevant management reports that will facilitate timely responses.

Over the past few years, the Office has worked with all the other jurisdictions throughout Canada that enforce family-support obligations to develop an "Operational Policies and Goals" document. All have signed and committed to this document, which will provide for standardized communications processes and co-operative principles across jurisdictions as related to enforcement guidelines and actions. Currently, the jurisdictions are setting out baseline data to identify performance measures so that guidelines and standards can be developed.

Assessment of Client Satisfaction

Complaints and client surveys are two important tools to determine client satisfaction and to assess the effectiveness of the program. We reviewed the processes surrounding both. Based on our review, we concluded that the Office was not assessing and monitoring client satisfaction to identify required service improvements.

COMPLAINTS

Complaints received directly by the Office were entered into individual case-file notes; however, the total number and the nature of the complaints received were not separately logged and tracked.

For the fiscal year 2001/02, there were 17,000 complaints received via other sources, such as the offices of the Minister and Deputy Minister of the Ministry of Community, Family and Children's Services (1,874), the local MPP offices (14,000), and the Office of the Ombudsman (1,126).

Different response time guidelines exist for complaints depending on their source. Written complaints received directly by the Executive Director in the Family Responsibility Office must be addressed and responded to within 15 days. Written complaints received through the Minister's office must be responded to within 30 days. Referrals from the local MPP offices and the Office of the Ombudsman must be responded to within five days.

Based on our review of a sample of complaints and the related process, we found that complaints were generally responded to within the required time frames. However, we also found that the Office did not summarize and analyze the complaints received by the nature of the complaint with a view to identifying areas in need of improvement. In that regard, we contacted the Office of the Ombudsman and were advised that many of the complaints were concerning delays in case administration and inappropriate enforcement of support orders.

Recommendation

To help increase client satisfaction and the effectiveness of services provided, the Office should:

- **log complaints from all sources to ensure that all complaints are addressed; and**
- **categorize and analyze the complaints received from all sources to identify areas most in need of improvement.**

Office Response

The Family Responsibility Office is reviewing its process for addressing complaints. Although all complaints are logged, the Office is presently limited in its ability to categorize and analyze all types of complaints, as current technology does not facilitate comparison and analysis. Should the Office receive approval to implement a new service-delivery model and supporting technology, the new system technology will generate the reports needed to monitor complaints and identify areas for improvement.

CLIENT SATISFACTION SURVEYS

According to the government's common service standards, customer feedback should be collected regularly to improve services and increase clients' satisfaction. One method of obtaining feedback is through a client satisfaction survey.

The last client satisfaction survey conducted by the Office was in the spring of 1999. Our review of this survey showed that many of the concerns identified then, such as long call-centre wait times and the need for proactive case monitoring and improved enforcement, have not been resolved, as noted in our current observations. No other client survey or customer feedback has been collected since 1999.

Recommendation

To aid in the assessment of both customer satisfaction and effectiveness of services provided, the Office should regularly conduct client satisfaction surveys that identify areas that are working well and those in need of improvement.

Office Response

The Family Responsibility Office is committed to conducting a client service survey in fall 2003 and using the results as a benchmark for future-year reporting on improvements to client satisfaction with service. The first survey will be conducted prior to the implementation of the new case management model in order to set baseline data. The Office will continue to collect customer feedback on a regular basis via client satisfaction surveys as a part of the business plan to improve services and increase client satisfaction.

MINISTRY OF CONSUMER AND BUSINESS SERVICES

3.04–Policy and Consumer Protection Services Division

BACKGROUND

The mandate of the Policy and Consumer Protection Services Division (Division) of the Ministry of Consumer and Business Services is to oversee business and other practices in the Ontario marketplace. It does so by establishing fair marketplace and technical standards, educating the public about standards and other relevant issues, monitoring businesses and enforcing their compliance with the various laws and regulations that exist for the protection of consumers, managing relationships with service-delivery partners, and developing strategic policy and legislation. The legislation for which the Division monitors compliance includes, for instance, the *Business Practices Act* and the *Consumer Protection Act, 2002*.

In the 2002/03 fiscal year, the Division had approximately 100 staff and operating expenditures of approximately $9.7 million. The Division consists of three branches: the Policy Branch, the Marketplace Standards and Services Branch, and the Sector Liaison Branch.

The Policy Branch is responsible for policy development across the Ministry. The Marketplace Standards and Services Branch, which accounts for approximately two-thirds of the Division's expenditures, administers various statutes relating to consumer protection and business licensing. The Marketplace Standards and Services Branch carries out its mandate of ensuring public safety and consumer protection through its registration and licensing activities in a number of industries. Some of the types of businesses that need to be registered or licensed include collection agencies, theatres, and cemeteries. The Branch also processes consumer complaints, inspects businesses for compliance with consumer protection acts, investigates alleged infractions, and undertakes initiatives to educate the marketplace.

Since 1997, the Ministry has also delegated the administration of a number of consumer and public-safety statutes to eight delegated administrative authorities (delegated authorities). The delegated authorities are not-for-profit corporations, led by representatives within each industry, that carry out the day-to-day functions of ensuring public safety and consumer protection by regulating and monitoring business practices in their industry.

Nevertheless, the Ministry retains overall responsibility for the outcomes of the delegated authorities' activities in protecting the consumers and the public.

The delegation of authority from the Ministry to the delegated authorities was facilitated by the *Safety and Consumer Statutes Administration Act, 1996*. The Division's Sector Liaison Branch is responsible for overseeing the following eight delegated authorities:

- the Technical Standards and Safety Authority;
- the Electrical Safety Authority;
- the Ontario Motor Vehicle Industry Council;
- the Ontario New Home Warranty Program;
- the Real Estate Council of Ontario;
- the Travel Industry Council of Ontario;
- the Board of Funeral Services; and
- the Vintner's Quality Alliance of Ontario.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit were to assess whether the Division had adequate procedures and systems in place to:

- ensure compliance with the legislation and ministry policies that are established to ensure public safety and consumer protection; and
- measure and report on the effectiveness of the key services and programs that it delivers in fulfilling its mandate.

At the beginning of the audit, we identified audit criteria that would be used to address our audit objectives. These were reviewed and accepted by senior ministry management. Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The scope of our audit, which was substantially completed in April 2003, covered the Marketplace Standards and Services Branch and the Division's monitoring of four delegated authorities. Our work included reviews and analyses of the Ministry's administrative procedures and guidelines, interviews with staff, and reviews of case files. As current legislation does not provide our Office with the authority to audit the delegated authorities, our work was confined to reviewing administrative agreements and performance information obtained by the Ministry, as well as, in some cases, additional information volunteered by the delegated authorities. We did not rely on the Ministry's Internal Audit

Services Branch to reduce the extent of our work because they had not recently conducted work within the scope of our audit.

OVERALL AUDIT CONCLUSIONS

We concluded the Ministry needed to enhance its procedures and systems to ensure compliance with legislation and ministry policies, to better protect consumers, and to better ensure public safety.

With respect to the Marketplace Standards and Services Branch, we had the following concerns:

- The Ministry did not deploy its inspection resources based either on an assessment of risk to the general public or to consumers of specific services, or on the number of complaints it received. For example, the practices of debt collectors had been the number one source of complaints received by the Ministry in the past five years. While it received approximately 4,000 complaints and inquiries (with almost 800 formal written complaints) about debt collectors in 2001/02, the Ministry conducted fewer than 10 inspections. In contrast, for theatres and video retailers, about which the Ministry received only eight complaints, the Ministry devoted over 95% of its inspection resources to inspecting this industry: almost 1,600 inspections were conducted to check whether video retail stores were operating with a valid licence and were selling adult videos only with proper stickers indicating their ratings.
- Of the 5,000 cemeteries in Ontario, fewer than 2,000 had filed their required annual returns with the Ministry. (When individuals purchase cemetery plots, cemetery owners are required to deposit at least 40% of the purchase price in a trust account to ensure resources are available to properly care for and maintain cemetery grounds—the status of each trust account is to be included in the required annual return.) Our audit showed that even for cemeteries that had filed their 2001 returns, the Ministry had not processed or performed an adequate review of them to ensure proper accounting for the trust funds.
- The Ministry did not ensure that the outcomes of its regulatory activities were captured in its management information system. For example, for the approximately 6,000 inspections performed over the past three years, the results of only 800 were recorded in the system. Such information would help management monitor the effectiveness of ongoing activities and identify recurring problems.

With respect to the Ministry's oversight of the delegated authorities, we concluded that the Ministry did not have adequate assurance that public safety and consumers were properly protected by the industry oversight organizations. Also, the Ministry's governance and accountability arrangements with the delegated authorities were not of sufficient strength to ensure appropriate monitoring of the delegated authorities' performance. Specifically, we noted the following concerns:

- The Ministry had not ensured that data on the outcome of delegated authorities' activities, as reported by delegated authorities—such as the number of safety-related incidents, the number of serious injuries, and the number of complaints received—were reliable. For example, the Technical Standards and Safety Authority (TSSA) indicated that some safety-related incidents were under-reported because businesses might worry that reporting incidents would result in their operations being inspected by the TSSA.
- The Ministry's monitoring of inspections, investigations, and other enforcement activities undertaken by delegated authorities in response to violations they identified was inadequate. For example, of the 4,600 natural-gas pipeline incidents reported in 2001, about 170, or 4%, were investigated by the Technical Standards and Safety Authority; the Ministry had not assessed whether this level of investigation was sufficient and appropriate to protect public safety.
- The Ministry was unable to obtain adequate information to monitor the activities and the outcomes of the activities of the Ontario New Home Warranty Program (ONHWP) because the Ministry had not, as yet, been able to negotiate a formal agreement with the ONHWP that would outline the Ministry's requirements. The information the Ministry had about this delegated authority's activities was mostly compiled from the ONHWP's published annual report. The Ministry therefore had little information with which to assess whether new homeowners were being properly protected, especially given that the ONHWP had stopped reporting complaints information three years before.
- The boards of directors of the various delegated authorities did not reflect a balanced representation of interests. To maintain balanced representation between industry and public interests, the Minister can appoint 50% of the members on delegated authorities' boards of directors. This provision would ensure that the governing boards of the delegated authorities are reasonably independent and not dominated by members appointed by the industry being regulated. Our review of the composition of the boards of the delegated authorities showed a significant under-representation of public interest. In addition, attendance at board meetings by Ministry staff appointed as government representatives was generally below that of other board members.

DETAILED AUDIT OBSERVATIONS

MARKETPLACE STANDARDS AND SERVICES BRANCH

To allow the Ministry to monitor the marketplace and thereby protect the interests of consumers, businesses in certain industries must be registered with the Ministry. For instance, the following parties must obtain a registration or licence from the Ministry before they can engage in the regulated business: collection agencies, bailiffs, credit reporting agencies, theatres, and cemeteries. Registration provides the Ministry with the information it needs to monitor their activities to ensure the honesty, integrity, and financial responsibility of an industry and to ensure that consumers are protected against unfair or substandard business practices, such as misrepresentation, overcharging for home renovations, pressure sales, and upfront fee scams.

The Marketplace Standards and Services Branch's monitoring of the Ontario marketplace includes: processing and issuing registrations and licences, regulating industry practices, establishing minimum standards, verifying the qualifications and requirements of participants who can operate in a specified sector, and monitoring that all parties are complying with legislation and policies that exist to protect consumers.

On a yearly basis, the Branch carries out its mandate of ensuring public safety and consumer protection by processing about 20,000 registrations and over 30,000 consumer complaints and inquiries and by conducting over 1,600 inspections and almost 300 investigations. As well, the Branch can initiate corrective action when it identifies cases of non-compliance. Such action can include: revoking licences or registrations, laying charges, and pursuing prosecutions and convictions.

Following Up On Consumer Complaints

The *Consumer Protection Bureau Act* gives the Ministry the mandate to "receive and investigate complaints of conduct in contravention of legislation for the protection of consumers." Based on the complaints it receives from consumers, the Ministry carries out inspections to determine whether further ministry action, such as investigation and enforcement, is required. The Ministry can also use inspections to proactively educate businesses and thereby reduce non-compliance with statutes and deter unfair practices. Complaints relating to industry sectors that are regulated by one of the eight delegated authorities are referred to the relevant delegated authority to handle.

Excluding those complaints that are referred to delegated authorities, the Ministry receives around 27,000 telephone complaints and inquiries per year. In most cases, consumers are advised to first try to resolve their complaint directly with the business, and they are informed of steps they can take themselves, such as going to small claims court. In cases where ministry follow-up action is requested by consumers, they have to file a complaint in writing to authorize the Ministry to take further action. The Ministry receives about 5,000 written complaints per year.

While the Ministry cannot force businesses to compensate consumers, based on complaints it has received, the Ministry can initiate inspections of the companies being reported. The numbers of ministry inspections and complaints received for the 2001/02 fiscal year, as well as the numbers of inspections conducted, are outlined in the following table.

Complaints and Inquiries Received by the Ministry[1] and Ministry Inspections by Industry, 2001/02

Industry	Telephone Complaints and Inquiries	Written Complaints	Total Complaints and Inquiries	Inspections Conducted	% of Total Inspections
Collection agencies	3,340	768	4,108	9	0.5
Credit reporting agencies	869	1,287	2,156	1	0.1
Motor vehicle repairs	1,722	217	1,939	6	0.4
Loan brokers	442	302	744	0	0
Theatres and video retailers	8	0	8	1,599	95.9
Others[2]	20,719	2,994	23,713	51	3.1
Total	**27,100**	**5,568**	**32,668**	**1,666**	**100**

[1] Excludes complaints and inquiries referred to delegated administrative authorities.

[2] Includes businesses like door-to-door sales; home renovations and repairs; and fitness centres, modelling agencies, and organizations offering prepaid services.

Source of data: Ministry of Consumer and Business Services

Our review revealed that the Ministry did not deploy its inspection resources based either on any formal assessment of risk to the public and consumers, or on the number of complaints received for each of the industries it monitors.

For example, as shown in the table, the Ministry devoted over 95% of its inspection activities to theatres and video retailers, even though there were virtually no complaints about this industry. Most of the inspections were conducted to ensure video retailers were operating with a valid licence and were selling adult videos only with stickers to indicate their ratings by the Ontario Film Review Board. With respect to these inspections, we also noted that the ministry inspectors had seldom seized videos or DVDs, as permitted by current legislation, to deter repeated non-compliance. Instead, where instances of non-compliance were noted, more inspections of the same retailers were conducted. The Ministry indicated that, since the 2002/03 fiscal year, it had initiated the issuing of orders to seize about 700 videos.

In contrast, the practices of industries that were at the top of the Ministry's list of complaints and inquiries were seldom inspected. Inspections of collection agencies was one example. In the 2001/02 fiscal year, the Ministry conducted nine inspections in the industry even though it received 3,340 telephone complaints and inquiries and 768 formal written complaints against the industry. Of those written complaints, almost one-third related to three collection agencies, but none of those collection agencies were inspected that year, nor had they been inspected in the previous seven years.

In 2001, the Ministry agreed with recommendations made by an outside consultant to devote at least half of its inspection efforts to responding to complaints and use the remaining half for proactive inspections, allocating inspection resources equally between collection agencies, cemeteries, and theatres. Nevertheless, at the completion of our audit in 2003, most of the inspection resources were still devoted to inspecting video retailers.

In addition, we noted that when unscrupulous practitioners had been identified, the Ministry was not taking timely enforcement action to protect consumers. For example, we noted concerns with two bailiffs cases. Through bailiffs, creditors or commercial landlords can take possession or repossess private properties from a debtor or commercial tenant without having to go to court. In 2003, for the first time in the past five years, the Ministry proposed to revoke two bailiffs' appointments, but only after it had received a number of written complaints about these two bailiffs abusing their authority in taking possession of properties—complaints dating back to October 1999 for one bailiff and to March 2001 for the other. Despite the history of complaints and the fact that both bailiffs had been charged by the police—one in March 2000 and the other in May 2002—the Ministry did not propose to revoke these bailiffs' appointments until the beginning of 2003. Ministry legal counsel had indicated to the Ministry that it does not have to wait for criminal convictions before proposing to revoke the appointment of a bailiff if there is evidence that the licence should be revoked to protect the public.

Subsequent to our audit, the Ministry informed us that one of the above proposals resulted in the bailiff being successfully convicted and his licence being revoked; the other proposal was being appealed.

In November 2002, the Ministry hired an investigator on contract to review complaints related to collection agencies. Subsequent to our audit, we were informed that this review resulted in the Ministry issuing a number of cautions, charges, and proposals to suspend and revoke 16 licences. While the Ministry was increasing its efforts to step up monitoring in this sector, it is important that such efforts be systematic and sustained and that they be expanded to include all high-risk sectors with large numbers of complaints.

While inspections are used to monitor compliance with fair business practices, educate businesses, and deter non-compliance, investigations are a formal means for the Ministry to determine whether further enforcement action, such as prosecution, needs to be initiated. Most investigations the Ministry conducts result from complaints it receives, but other factors that may prompt an investigation might include information obtained from the police or new cases discovered during the course of an original investigation. We concluded that the investigations the Ministry had conducted were generally performed in a satisfactory manner. As well, where mediations were possible, we noted evidence that appropriate efforts had been made to obtain restitution for consumers.

Recommendation

To adequately protect the public, the Ministry should allocate its inspection resources for monitoring various industries based on a systematic assessment of risk as well as on the number of complaints it receives about these industries.

As well, the Ministry should ensure unscrupulous practitioners are removed from the marketplace on a timely basis to protect consumers and the public from potential losses and abuse.

Ministry Response

The Ministry has developed a risk-based framework for allocating Marketplace Standards inspection resources based on advice from an independent risk-management consultant. The framework has since been implemented and will be followed to ensure that inspection resources are appropriately deployed.

Where there is clear evidence of an offence, the Ministry is committed to taking timely enforcement action.

Monitoring Cemeteries' Trust Accounts

One of the industries the Ministry regulates is cemeteries, which are monitored by the Ministry for compliance with certain financial requirements. There are over 5,000 registered cemeteries in Ontario. To ensure public safety and consumer protection, cemetery owners are required to deposit a percentage (between 40% and 100%) of the sales of plots into trust fund accounts. The income from these accounts is intended to support the cost of caring for and maintaining the cemeteries (headstones, grounds, and buildings).

Given that hundreds of millions of dollars have been paid by consumers and deposited into trust funds, cemetery owners are required to file annual returns, which include trust account statements, within three months after the cemetery's fiscal year-end. The returns must be certified by the owners and the trustees to be complete and accurate. Cemetery owners are also required to file, within six months after the cemetery's fiscal year-end, audited financial statements for care and maintenance trust funds containing more than $500,000 and for pre-need trust funds (those relating to pre-arranged burial services) of more than $100,000.

Ministry staff are responsible for reviewing, on a timely basis, the annual returns from cemeteries owners to detect errors, omissions, and instances of non-compliance with filing requirements. The timely monitoring of such returns, especially relating to trust fund accounts, is intended to minimize the risk of payments by consumers not being deposited into trust accounts or an insufficient amount being deposited. The other risk is of a cemetery not having the resources needed for care and maintenance purposes. In such cases, the cemetery may have to be turned over to be operated by the local municipality at the expense of local taxpayers.

Our review of the Ministry's cemetery registration records found that a significant number of the registration records were missing. Ministry staff indicated that many of these records were inadvertently lost or misfiled in 1992 during the transfer of responsibilities from one section of the Ministry to the current branch.

In addition, we found that a significant number of cemeteries had not filed their annual returns. The Ministry indicated that 2,000 of the 5,000 registered cemeteries were either not conducting any more burials or receiving fewer than 10 burial permits per year. Due to limited resources, since 1995, the Ministry has exempted these owners from filing the required returns. However, the main reason for requiring annual returns is to ensure sufficient funds are available for the care and maintenance of cemeteries. By exempting these owners, the Ministry could not ensure sufficient funds were available, as many of these cemeteries were established prior to the requirement of having trust accounts. These cemeteries in fact pose significantly higher risks than cemeteries with proper trust funds established for care and maintenance.

As well, in our review of the 2001 filings for active cemeteries, we found:

- The Ministry indicated that it had not received the returns due from 400 cemetery owners. We noted that the Ministry had not taken timely action to follow up on the status of these returns. For instance, only seven cemeteries had been inspected from 1998/99 to 2001/02, and mostly as a result of complaints. Our review indicated that three owners of these active cemeteries had not been submitting annual returns to the Ministry for seven to eight years. One of these owners was prosecuted only in December 2001 for failing to maintain a cemetery, which was then turned over to be operated by the local municipality.
- The Ministry could not determine what caused delays in processing the returns that had been filed by 450 owners, other than speculating that the delays might be related to problems with the information received and the lack of ministry staff resources.
- The Ministry did not perform proper reviews of the returns that it had processed. For example, for two-thirds of the returns processed, the cemetery owners and/or trustees did not report a balance for their trust fund accounts. The Ministry did not follow up on the reasons for the missing balances. We requested that the Ministry ask two of the owners to resubmit their trustee statements. These resubmitted statements showed a total of $300 million being held in trust.

The lack of timely monitoring of the filing of annual returns from cemetery owners increases the risk that payments by consumers might not be properly deposited and accounted for in trust fund accounts as required to maintain and care for cemetery grounds.

Recommendation

To comply with legislative requirements relating to cemeteries in Ontario and to make sure that sufficient funds are available for the proper care and maintenance of cemeteries, the Ministry should ensure that:

- **cemetery registration records are complete and annual returns are filed by all cemetery owners within the required time frame; and**
- **ministry staff verify, on a timely basis, the balances of trust accounts established to care for and maintain cemeteries.**

Ministry Response

The Ministry is reviewing its procedures to ensure that cemetery records are requested from registrants on a timely basis and that where material underreporting occurs, timely follow-up action is taken. The Ministry is examining its procedures for reviewing trust account balances for the approximately 2,500 owners of the 5,000 cemeteries who may be required by statute to maintain these funds.

Measuring and Reporting on Effectiveness

In April 1999, the Ministry implemented a new management information system to track complaints, inspections, and investigations. The system has the capability to generate reports that capture the Branch's activities and the outcomes of those activities. At our request, the Ministry was able to generate the information outlined in the following table.

Marketplace Standards and Services Branch—Activities and Outcomes, 2000–2002

	2000	2001	2002	% Increase/ Decrease Since 2000
Activities				
Inquiries and complaints	35,161	31,395	32,668	–7
Mediations	838	676	872	4
Inspections	2,079	2,419	1,666	–20
Investigations	272	250	246	10
Outcomes				
Charges laid	742	336	533	–28
Convictions	401	274	57	–86
Money returned to consumers	$1,283,080	$954,570	$461,830	–64

Source of data: Ministry of Consumer and Business Services

We noted that although the Ministry's management information system was capable of generating data on the above activities, the Ministry was not ensuring that the outcomes of such activities were captured in the system. For example, for the approximately 6,000 inspections performed over the past three years (as shown in the above table), we noted that the outcomes of only 800 of these inspections were recorded in the system. Such information would help ministry management monitor the effectiveness of ongoing activities and identify recurring problems. It would also enable the Ministry to report on the effectiveness of its activities and outcomes.

With respect to measuring performance related to inquiries and complaints, in the 2001/02 fiscal year, the Ministry conducted a customer satisfaction survey of the Ministry's handling of inquiries and complaints. The survey was conducted over the telephone with callers who had contacted the Ministry. The results indicated that the majority of callers surveyed (90%) rated the services they received to be good or excellent. However, we had the following concerns:

- The survey was not independent given that it was done, at the end of the call, by the same staff who handled the inquiry or complaint. The risk is that callers who were not satisfied with the service may not answer honestly and staff may not objectively report the callers' responses. The Ministry indicated that in future it intended to engage an independent company to conduct the customer survey.
- Callers were asked at the end of the call whether they were satisfied with the courtesy, helpfulness, and timeliness of the service, but in cases where further action by the Ministry would likely be required, callers were probably not in a position at that point to assess whether the staff were effective in helping them resolve their concerns during the course of the telephone call.

In addition, we noted that there was no survey done on written complaints. Such a survey would be an important and perhaps more objective indicator of the Ministry's effectiveness in dealing with consumer concerns.

Recommendation

To enhance management's ability to properly measure and report on its effectiveness in protecting consumers and public safety, the Ministry should:

- **use its management information system to capture and analyze the outcomes of its activities and thereby be in a position to improve and report on its effectiveness; and**
- **conduct proper consumer satisfaction surveys of both telephone and written complaints.**

Ministry Response

The Ministry recognizes the importance of recording data pertaining to the outcomes of various activities, including investigations and inspections. With the successful implementation of the final phase of the new CATS business system in April 2001, the Ministry's ability to capture key data improved significantly. The Ministry will work to further improve its outcomes data capturing and processing as part of the ongoing refinement of the CATS information system.

As noted in the Auditor's Report, staff in the Marketplace Standards and Services Branch conduct regular customer satisfaction surveys at the point of transaction with consumers. To provide a further source of customer

satisfaction data, the Ministry retained an independent consultant to survey a sample of consumers who had dealings with the Ministry. It is expected that these two data sources will provide the Ministry with useful feedback.

DELEGATED ADMINISTRATIVE AUTHORITIES

Traditionally, the government has been responsible for protecting consumers and public safety in the Ontario marketplace by establishing relevant legislation and carrying out regulatory activities. In recent years, however, Ontario has established a number of delegated administrative authorities (delegated authorities) to permit certain industries to undertake regulatory functions.

The delegated authorities are not-for-profit corporations with Boards whose members represent both the industry in question and the public interest—some members are nominated by the related industry and others are appointed by the Minister to represent the government, the public, and consumers. The *Safety and Consumer Statutes Administration Act, 1996* was passed to facilitate the administration of a number of consumer and public-safety statutes by these delegated authorities.

Under this model, the delegated authorities are responsible for all day-to-day administrative activities, including registration and licensing, complaints processing, inspections, investigations, and other enforcement functions. The provincial government is responsible for legislating the regulated industries, and the Ministry remains accountable for the outcomes of improving public safety and consumer protection by:

- setting policy direction, rules, and standards for regulated industries through legislation, administrative agreements with delegated authorities, and other oversight mechanisms;
- ensuring adequate accountability frameworks and governance structures are in place—including those that allow for monitoring and taking corrective action, when necessary—to protect the public interest and promote public safety and consumer protection; and
- providing the public with relevant, accurate, and timely information on the outcomes of the delegated authorities' regulatory activities.

For our review of the delegated authorities model, we selected two of the delegated authorities that are responsible for public safety in Ontario, the Technical Standards and Safety Authority and the Electrical Safety Authority, and two that are responsible for consumer protection, the Ontario Motor Vehicle Industry Council and the Ontario New Home Warranty Program. For the selected delegated authorities, we reviewed their administrative agreements with the Ministry and performance information obtained by the Ministry, as well as, in some cases, additional information provided by the delegated authorities.

A key reason that the delegated authorities were established was that they can be more responsive to the needs of the marketplace because of their interest in the industries they regulate. We noted that there was a workable accountability framework in place to delegate regulatory functions to certain industries. However, based on our review of the information gathered by the Ministry and of the Ministry's monitoring activities, we concluded that the Ministry could not have adequate assurance that public safety and consumers were being properly protected. Our audit indicated that the Ministry did not have proper mechanisms in place to ensure outcomes reported by the delegated authorities were reliable. We also found that the Ministry's monitoring efforts were inadequate.

Our observations for the selected delegated authorities are outlined in the following sections.

Technical Standards and Safety Authority

In 1997, the Technical Standards and Safety Authority (TSSA) was delegated the authority to regulate safety in such sectors as amusement devices; boilers and pressure vessels; elevating devices; natural gas, petroleum, propane fuels, and related equipment; and upholstered and stuffed articles. It administers and enforces public-safety laws in these sectors under Ontario's *Technical Standards and Safety Act*.

The Ministry has established performance indicators to measure and report on the outcomes of the TSSA's activities to enable it to assess the TSSA's effectiveness in promoting public safety. These indicators include: the number of reported incidents; the number of serious injuries and fatalities; and the number of complaints received—all of which are reported on annually by the TSSA in a publicly available report entitled *State of Public Safety Report*.

When reported outcomes are to be used to assess effectiveness and to provide direction in addressing public-safety risks, the reliability of the reported outcomes is essential. Our review of information relating to the period 1998 to 2001 (the latest statistics available at the time of our audit) indicated that the Ministry had not ensured that the safety outcomes reported by the TSSA were reliable. Our specific observations are discussed in the following sections.

Reported Incidents

The safety-related incidents reported by the TSSA since 1998 are outlined in the following table.

TSSA's Safety-related Incidents by Sector, 1998–2001

Sector	1998	1999	2000	2001	% Increase/ Decrease Since 1998
Boilers and pressure vessels	3	7	3	9	200
Amusement devices	80	75	79	51	–36
Elevators, escalators, and moving walks	520	499	537	533	3
Ski lifts	146	113	78	63	–57
Fuels	250	211	483	444	78
Total	**999**	**905**	**1,180**	**1,100**	**10**

Source of data: TSSA's 2001 State of Public Safety Report

In the case of safety-related incidents for amusement devices and ski lifts, the statistics were showing a decreasing trend but TSSA management reported that the decrease was due to an increasing trend of operators not reporting all incidents. The TSSA acknowledged that incidents were likely under-reported in other areas as well because businesses might worry that reporting would result in their operations being inspected by the TSSA.

In addition, we found that:

- Except in the case of fuel incidents, over the years, neither the TSSA's annual reports nor its *State of Public Safety* reports indicated how many of the reported incidents were investigated. The reporting of both reported and investigated incidents would demonstrate the extent to which the TSSA had taken action on safety concerns reported. Also, reported incidents did not separate minor incidents from those requiring a direct compliance response.
- With regard to fuel incidents, the 444 cases that were reported by the TSSA for 2001 actually related to the number of cases that were investigated by the TSSA in that year. Our review indicated that, in fact, 6,000 fuel incidents were reported to the TSSA in 2001. Of this total, 4,614 were natural-gas pipeline incidents that resulted mostly from damages to underground pipelines.
- The TSSA reported in 2001 that the 4,614 natural-gas pipeline incidents noted above represented a slight increase over the 4,568 pipeline hits in 2000. However, our review of the 2000 *State of Public Safety Report* showed that the number of natural-gas pipeline incidents reported in that year was actually 3,446. No explanation was provided for why the 2000 number was revised upwards by over 1,000 from 3,446 to 4,568 between 2000 and 2001. The Ministry was not aware of the significant difference until we brought it to its attention.

Serious Injuries

In May 2002, the TSSA revised the serious injuries data it had reported for elevators, escalators, and moving walks, as well as for ski lifts, since 1998, citing classification errors. The statistics for these sectors for 1998 through 2001 are outlined in the following table.

TSSA's Reported Serious Injuries by Selected Sector, 1998–2001 (Revised Data)

Selected Sector	1998	1999	2000	2001	% Increase/ Decrease Since 1998
Elevators, escalators, and moving walks	28	23	29	29	3
Ski lifts	5	2	3	4	–20

Source of data: TSSA's 2001 State of Public Safety Report

We reviewed the original reports from previous years and noted that without the revisions to numbers dating back to 1998, the safety trend would have been different. As outlined in the following table, the originally reported serious injuries numbers for these sectors revealed that instead of a slight increase (3%) in serious injuries for elevators, escalators, and moving walks, the increase would have been 70%; and instead of a decline of 20% in serious injuries relating to ski lifts, the data showed an increase of 300%.

TSSA's Reported Serious Injuries by Selected Sector, 1998–2001 (Pre-revised Data)

Selected Sector	1998	1999	2000	2001	% Increase Since 1998
Elevators, escalators, and moving walks	17	12	17	29	70
Ski lifts	1	2	3	4	300

Source of data: TSSA's 2000 and 2001 State of Public Safety Reports

Since the number of serious injuries was a key indicator used by the Ministry to monitor safety outcomes, the lack of accurate information hindered the Ministry's ability to direct the TSSA to take more timely action to ensure public safety.

Fatalities

In prior years, the TSSA reported data on fatalities separately from data on serious injuries, but in 2001, the TSSA combined fatalities and serious injuries in its *State of Public Safety Report*. For our audit, we requested segregated data.

Our review of those data indicated that in the TSSA's 2001 report, the combined data of fatalities and serious injuries were under-reported in two sectors. Specifically, the following figures were omitted: four fatalities in the boilers and pressure vessels sectors in 2000 and 2001 and five fatalities in the fuels sector in 2000.

Complaints

The Ministry had established reporting requirements relating to the tracking of complaints for all the delegated authorities. In its annual reports since 1998, the TSSA has indicated that it is committed to timely and responsive handling of complaints from the public and its industry clients. Complaint statistics from the TSSA are outlined in the following table.

TSSA's Reported Complaints, 1998/99–2001/02

Year	Number of Complaints
1998/99	126
1999/2000	23
2000/01	11
2001/02	995

Sources of data: TSSA's Annual Reports, 1998/99–2001/02

Ministry management indicated to us that despite the numbers reported above, the complaints did not, in fact, dramatically increase from 11 in 2000/01 to 995 in 2001/02. Rather, it explained that the TSSA had not been accurately tracking and reporting the number of complaints. The Ministry indicated that it had expressed concerns with the low numbers of complaints reported by TSSA; this resulted in better reporting in 2001/02. While we were unable to assess whether subsequent complaints data were more accurately reported, we were concerned that it had taken four years for the Ministry to act on its concerns.

MONITORING ACTIVITIES AND OUTCOMES

The Ministry is responsible for monitoring the activities and outcomes of the TSSA. The Ministry requires the TSSA to report on its inspection and enforcement activities on a quarterly basis.

The Ministry indicated to us that the TSSA had recently developed a risk-assessment model for the deployment of inspection resources. In addition, the TSSA had adopted a more co-operative approach in working with sectors—one that was focused on education, training programs, and information seminars as means of encouraging compliance—in addition to using an enforcement-oriented approach that used prosecutions or other penalties.

Nevertheless, inspection activities are effective only if appropriate follow-up action is taken when violations are identified. In this respect, we noted that the Ministry had not assessed whether the nature and extent of follow-up action taken by the TSSA was appropriate. Specifically, while the Ministry knew how many inspections had been conducted, the Ministry had not monitored the results of inspections to assess their effectiveness in protecting public safety.

To illustrate by way of an example why it is important for the Ministry to monitor the effectiveness of the results of inspections, we noted that there were more than 4,600 natural-gas pipeline incidents reported to the TSSA in 2001, some of which resulted in fatalities. Our review showed that about 170, or 4%, of the incidents were investigated by the TSSA. However, the Ministry had not monitored and analyzed whether the TSSA's level of investigation and other enforcement measures were sufficient and appropriate, nor what corrective action, if any, would be needed to reduce the number of incidents and the occurrence of fatalities.

At the time of our audit, the Ministry did not have the following information for monitoring and analysis purposes:

- the number of inspections that resulted in inspectors' orders being issued (orders list instances of non-compliance noted during inspections and direct the corrective action that needs to be taken), versus the number of inspections that demonstrated compliance;
- the nature and seriousness of violations;
- the number of outstanding inspectors' orders and the length of time such orders had been outstanding; and
- the number of high-risk establishments and repeat offenders.

The only information provided to us to demonstrate the Ministry's monitoring efforts was the number of prosecutions and convictions. We noted that for the five fiscal years ended 2001/02, the TSSA reported an average of 23 prosecutions and eight convictions per year for the seven sectors that it regulated. Not having monitored and analyzed the effectiveness of follow-up actions taken by the TSSA on violations identified during its inspections, the Ministry did not have adequate information to assess whether the extent of prosecutions and convictions was appropriate and sufficient to deter future violations.

As indicated in the Audit Objectives and Scope section of this report, our audit was not to assess the effectiveness of the various delegated authorities but to assess the adequacy of the procedures and systems the Ministry has in place to monitor these authorities and thereby ensure public safety and consumer protection. In that regard, the following recommendation applies to the Ministry's monitoring efforts for all of the delegated authorities.

Recommendation

To better protect public safety the Ministry should improve its monitoring of delegated administrative authorities (delegated authorities) by:

- **ensuring the reliability of the outcomes that are reported by the delegated authorities; and**

- **monitoring the activities of the delegated authorities to ensure that inspections, investigations, enforcement measures, and other appropriate actions are taken on a timely basis and are sufficient to ensure the achievement of established safety outcomes.**

Ministry Response

The Ministry recognizes the importance of reliable safety data and supports the delegated authorities in their efforts to improve the quality of this information.

However, revisions to historic data have never hindered the ability of the government or the Technical Standards and Safety Authority (TSSA) to take timely and appropriate action to ensure public safety. Any individual safety incident that reveals a gap in safety standards or design requirements is acted on without delay.

For example, with the passage of the **Technical Standards and Safety Act** ***and related regulations in 2000, Ontarians have benefited from a more modern and responsive legal framework that enables timely updates to safety standards and better regulatory tools to respond effectively to emerging safety issues. The Ministry and TSSA have implemented a number of other important enhancements to safety standards in recent years. Some examples of effective responses include:***

- ***one fatality on a bungee ride that resulted in approvals no longer being granted for non-stationary bungee devices in the Province of Ontario;***
- ***the decision to introduce certification requirements for amusement device and ski lift mechanics in response to recent incidents; and***
- ***a recent TSSA Director's Order outlining clear safety requirements for tube tow device operators in response to two safety incidents last winter.***

The Ministry will continue to work with the safety authorities to ensure continuous improvement in the quality of their data and their approach to risk management.

As well, the Ministry remains committed to requiring quarterly performance tracking reports from the safety authorities to ensure they can demonstrate appropriate and timely enforcement responses to safety incidents.

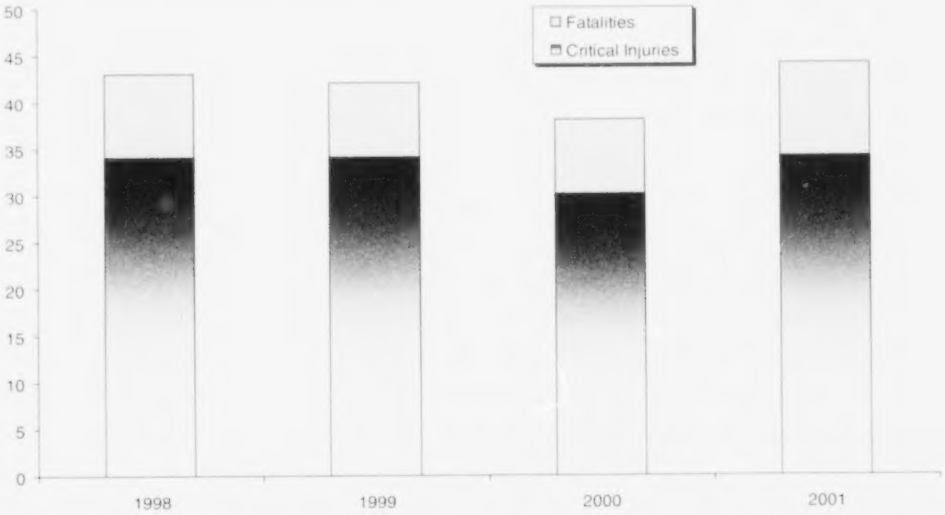
Electrical Safety Authority

In April 1999, under the *Electricity Act, 1998*, the Electrical Safety Authority (ESA) (formerly the Ontario Hydro Electrical Inspection division) was delegated the authority to oversee electrical safety. In fulfilling this responsibility, the ESA's activities include inspection, investigation, enforcement, and other electrical safety services in Ontario. The ESA's primary responsibility is interpreting and enforcing the *Ontario Electrical Safety Code*.

The ESA reports to the Ministry the key outcomes of its activities as a measure of its effectiveness in protecting public safety and consumers. Key indicators include: the number of reported incidents (for instance, power-line contact); the number of critical injuries (defined as loss of consciousness, injury to major limbs, or large amount of blood lost); the number of fatalities; and the number of complaints received.

Both the Ministry and the ESA were concerned about the high number of electricians killed and the number of critical injuries on the job. Critical injuries and fatalities reported on from 1998 through 2001 are illustrated in the following graph.

ESA's Reported Critical Injuries and Fatalities Among Electricians, 1998–2001



Source of data: Ministry of Consumer and Business Services

The Ministry and the ESA also expressed the following concerns:

- While electricians must attend college and apprenticeship programs to receive their certificates of qualification, no requirement exists for them to update their training in electrical safety requirements and their knowledge of the *Electrical Safety Code*.
- Licensing requirements for electrical contractors varied from municipality to municipality.

Based on the above concerns, the ESA proposed that it be delegated the authority to become the registrar for the certification and licensing of electricians and to enforce requirements for the certificates of qualification.

Recommendation

To help reduce electrical incidents involving serious injuries and the deaths of electricians, the Ministry and the Electrical Safety Authority should work with

other stakeholders to develop consistent safety standards for the training and initial and ongoing licensing of electricians working in Ontario.

Ministry Response

The Ministry and the Electrical Safety Authority (ESA) recognize that having properly trained and accredited electricians is an important component of electrical safety in Ontario. While the ESA has previously been responsible for electrical permits and inspection, the Ministry and the ESA have been actively working with industry groups, consumers, and the Ministry of Training, Colleges and Universities to strengthen the oversight and professional development and standards requirements for electricians.

Ontario Motor Vehicle Industry Council

The Ontario Motor Vehicle Industry Council (OMVIC) received delegated responsibility for the administration of the *Motor Vehicle Dealers Act* in January 1997. OMVIC is responsible for registering and monitoring motor vehicle dealers and salespersons, and undertaking enforcement action with a focus on on-site visits and inspections, investigations, and prosecutions of those violating the Act. They also handle complaints and mediation, which provides alternatives to litigation for consumers and dealers. In addition, they promote professional standards and public awareness, which involves developing programs intended to enhance the industry's professionalism and consumer knowledge.

Key indicators of the OMVIC's activities and outcomes include: dollars returned to consumers, the number of convictions resulting from investigations, the number of inquiries handled, and the number of inspections conducted. The OMVIC was the only delegated authority that provided the Ministry with up-to-date quarterly statistics on its activities and outcomes. Our review of the outcomes reported over the past five years indicated the OMVIC had consistently improved its effectiveness in having money returned to consumers over complaints relating to motor vehicle dealers.

OMVIC's Reported Activities and Outcomes, 1998–2002

	1998	1999	2000	2001	2002	% Increase Since 1998
Activities						
Inquiries and complaints	47,933	53,816	57,440	63,515	57,935	21
Mediations	800	870	2,477	1,837	1,450	81
Inspections	3,955	3,132	4,249	7,533	5,430	37
Outcomes						
Charges laid	457	869	1,457	1,774	2,162	373
Convictions	223	298	617	510	553	148
Money returned to consumers ($)	604,200	683,747	1,058,735	1,384,190	1,218,971	102

Sources of data: OMVIC, Ministry of Consumer and Business Services

As shown in the above table, the money returned to consumers as a result of mediations and other enforcement activities in 2002 was $1.2 million, an increase of 100% from about $600,000 in 1998. Our review of the above statistics indicated that the significant improvement in OMVIC's outcomes, such as the number of convictions and the amount of money returned to consumers, corresponded with the increase in its regulatory activities, such as the handling of complaints, the initiation of mediations and inspections, and the laying of charges.

While the OMVIC is responsible for regulating motor vehicle dealers, the Ministry continues to be responsible for complaints related to motor vehicle repairs and related inspections and investigations. We noted that although motor vehicle repair was in the top three of complaints received by the Ministry over the past three years, the number of inspections the Ministry conducted was minimal—as shown in the following table.

Ministry Data on Complaints and Inspections for Motor Vehicle Repairs, 2000–2002

	2000	2001	2002	% Increase/ Decrease Since 2000
Telephone complaints	2,145	1,822	1,722	-20
Written complaints	185	231	217	17
Total	**2,330**	**2,053**	**1,939**	**-17**
Ministry inspections	6	8	6	0

Source of data: Ministry of Consumer and Business Services

Our review indicated that, because most dealers also conduct repairs on their premises, there was overlap in the functions of the Ministry and the OMVIC in terms of handling complaints and conducting inspections related to the industry.

Recommendation

To protect consumer interests with respect to the regulation of the motor vehicle industry in a more cost-effective manner, the Ministry should work with the Ontario Motor Vehicle Industry Council on ways to improve the effectiveness of consumer protection with respect to motor vehicle repairs.

Ministry Response

The Ministry has initiated discussions with the Ontario Motor Vehicle Industry Council to explore co-operative relationships to improve regulatory effectiveness in the motor vehicle repair sector.

Ontario New Home Warranty Program

The Ontario New Home Warranty Program (ONHWP) was established in 1977 to administer the *Ontario New Home Warranties Plan Act*. The ONHWP was established to make new home warranty coverage mandatory. As a result, builders in Ontario are required to register as members of the ONHWP and pay enrolment fees for new home sales to cover potential warranty claims from new homebuyers in Ontario. Homebuyers can communicate complaints and submit them to the ONHWP if they are dissatisfied with the services provided by the builder. The ONHWP processes the complaint to determine if it is eligible for coverage. If it is, the ONHWP can compel the builders to make repairs or can pay out a suitable compensation to the homebuyer and may recover the refund from the builder.

At the time of our audit, the Ministry had not been successful in negotiating an administrative agreement with the ONHWP to define their respective roles and responsibilities in protecting homebuyers in Ontario. We noted that because it did not have a formal agreement in place, the Ministry could not effectively provide any direction to the ONHWP, or obtain adequate information about its operations in protecting homebuyers. For instance, the Ministry could only provide us with the ONHWP's annual reports because it had limited success in obtaining additional information from the ONHWP.

We compiled and reviewed information on performance outcomes that was available in public, ONHWP annual reports and other sources. We noted that there were no data on complaints to the ONHWP beyond 2000 because the ONHWP had stopped publishing complaints in its annual report. The following table outlines our compiled statistics.

ONHWP's Outcome Statistics, 1998–2000

Outcomes	1998	1999	2000	% Increase/ Decrease Since 1998
Complaints against builders	21,200	22,900	28,153	33
New home sales	49,393	57,607	62,904	27
Homebuyers' claims approved	1,100	972	763	–31
Money paid out for claims ($ 000)	8,754	5,203	7,391	–16

Sources of data: ONHWP and the Ministry of Consumer and Business Services

We noted that while new home sales in Ontario had steadily increased since 1998 and complaints had increased slightly in proportion, the number of claims approved had declined significantly and the amount paid out to consumers had declined as well. No information was available to explain the cause of the decline in claims approved. There were several possible causes for the decline: for instance, the ONHWP might be able to more effectively mediate complaints against builders, or it might be favouring builders in rejecting consumers' claims.

Our review of complaints received by the Ministry specifically about the ONHWP showed that the complaints mostly related to the following:

- that the ONHWP's services were biased in favour of builders over consumers; and
- that the ONHWP's decisions were biased against smaller builders because representatives of big builders dominated its board.

The Ministry indicated that it had expressed concerns regarding the above complaints and had met on numerous occasions with the ONHWP to discuss the complaints as well as a governance and accountability mechanism.

Recommendation

The Ministry should take action to ensure that better accountability mechanisms are in place to protect consumers buying new homes in Ontario.

Ministry Response

The Ontario New Home Warranty Program and the Minister of Consumer and Business Services have signed a letter of accountability establishing formal reporting requirements and outlining the roles and responsibilities of each party.

Governance and Accountability of Delegated Authorities

Delegated authorities were established to be more responsive to the needs of their industries and other stakeholders in the marketplace and more responsive in deploying resources for regulatory activities. To counter potential criticism of this self-regulatory model—specifically, criticism of under-regulation, under-representation of consumers, and biased decisions favouring the industries' members—the Ministry put in place a number of formal and informal tools to ensure that delegated authorities remain accountable and fair and provide for sufficient consumer representation. These tools include:

- administrative agreements signed between the Ministry and each delegated authority, which outline the roles and responsibilities of each party;
- the Ministry's right to recommend or appoint government, public, and consumer representatives to the boards of directors of the various delegated authorities; and
- the establishment of a ministry unit to monitor delegated authorities—specifically, their effectiveness outcomes and compliance with legislative requirements, including timely submission of annual reports, business plans, and other operational reports required by the Ministry.

We made several observations relating to these governance and accountability tools, which are outlined in the following sections.

ADMINISTRATIVE AGREEMENTS

The Ministry sets expectations and terms of delegation with the delegated authorities through administrative agreements. The agreements are an important tool in governing delegated authorities and making them accountable. The requirements outlined in these agreements include: the composition of the board of directors, annual performance reporting expectations, and oversight fees. We noted that the Ministry had not negotiated an administrative agreement with two of the eight delegated authorities.

MINISTER'S APPOINTEES

The *Safety and Consumer Statutes Administration Act, 1996* enables the Minister to appoint up to 50% of the members of delegated authorities' boards of directors. The presence of Minister's appointees on a delegated authority's board helps maintain a balance between representation by government, consumers, the public, and the industry. At the time of our audit, appointments to the boards of the delegated authorities we reviewed were as outlined in the following table.

Composition of Selected Delegated Authorities' Board of Directors, Spring 2003

	TSSA	ESA	OMVIC	ONHWP	Total
Total board members	17	12	12	17	58
Number of Minister's appointees	3	3	3	0*	9
Percentage of Minister's appointees on the board	18	25	25	0*	16

* Because no administrative agreement was in place for the ONHWP, no provision existed for Minister's appointees on its board of directors.

Sources of data: TSSA, ESA, OMVIC, ONHWP, and the Ministry of Consumer and Business Services

Given that the Minister can appoint 50% of board members, we noted the significant under-representation of members who were independent of the industries being regulated in the composition of boards. Although board members might not belong to the industries being regulated, if they are appointed by the regulated industries, they are not fully independent. Also, we noted that attendance by ministry staff appointed by the Minister was generally below that of other board members.

MONITORING OF AUTHORITIES' PERFORMANCE

Prior to the delegation of authority to the various delegated authorities, the costs of regulating the related industries were recovered by the Ministry through revenues that were generated through registrations, inspections, and certification activities. Since delegation, these revenues are collected by the delegated authorities. Revenues are to be used to cover the costs of the regulatory activities undertaken by delegated authorities as well as the oversight function the Ministry has for the delegated authorities. To ensure the Ministry has sufficient resources to fulfill this oversight role, administrative agreements between the delegated authorities and the Ministry provide for the Ministry to recover some of the revenues collected by delegated authorities to cover its costs.

When the delegation of authority began with the establishment of the first four delegated authorities in 1997, the Ministry's original plan was to collect from delegated authorities $2 million in oversight fees per year to cover the costs of monitoring the performance of these delegated authorities. However, of the $2 million actually collected by the government, only $380,000 was allocated to the Ministry to provide four staff for this monitoring. Since 1999, four more delegated authorities have been added without additional funding. According to the Ministry, current staff levels were not sufficient to deal with the significant increase in workload. Our review indicated that this lack of resources could have contributed to the inadequate monitoring efforts already noted in this report.

With respect to reporting requirements, the *Safety and Consumer Statutes Administration Act, 1996* requires that delegated authorities submit annual reports showing their activities and financial affairs within four months of their fiscal year-end. This provision is intended to allow the Ministry to review and table the reports in the Legislature on a timely basis. Our review indicated that none of the delegated authorities complied with this reporting requirement and that the Ministry took from 12 to 20 months after the delegated authorities' fiscal year-end to table their annual reports in the Legislature.

Recommendation

To better protect consumers and the public, the Ministry should strengthen its governance and accountability arrangements with delegated administrative authorities (delegated authorities) by:

- **establishing administrative agreements with the delegated authorities on a timely basis;**
- **having an adequate number of government, consumer, and public representatives on the boards of directors of the delegated authorities to achieve a fair balance of representation;**
- **ensuring sufficient levels of resources are devoted to monitoring the performance of the delegated authorities; and**
- **ensuring reporting and other performance requirements are complied with on a timely basis.**

Ministry Response

With respect to establishing administrating agreements, five delegated authorities under the governing* Safety and Consumer Statutes Administration Act, 1996 *framework have administrative agreements in place. The Ministry has also undertaken a review of these administrative agreements and has

modernized their provisions to reflect recent improvements in governance and accountability best practices.

In addition, the Ontario New Home Warranty Program and the Minister of Consumer and Business Services have signed a letter of accountability.

Furthermore, as a result of the recently passed Funeral, Burial and Cremation Services Act, 2002, *the Ministry has a legislative basis to work with the government and stakeholders to create a new cemetery and funeral service administrative authority. The Ministry will review governance and accountability provisions in the context of implementing the new Act.*

With respect to representation on boards of directors, the Ministry is committed to ensuring a fair balance of representation on the boards of its delegated authorities. The board of each delegated authority contains a substantial proportion of members who are independent from the regulated industries. The Technical Standards and Safety Authority (TSSA), for example, has adjusted its board balance to include nine non-industry directors and eight industry directors from distinctly different sectors that TSSA regulates.

The Minister of Consumer and Business Services retains the authority to adjust the current board balance by appointing up to 50% of the board. The Ministry will continue to review the composition of the delegated authority boards over time to ensure that an appropriate proportion of non-industry, independent directors is maintained.

Furthermore, the Ministry will develop a skills profile reflecting the ideal competencies sought for non-industry members, in order to optimize non-industry member effectiveness on these boards of directors.

With respect to ensuring sufficient resources for performance monitoring, the Ministry will review its capacity to fulfill oversight functions and will make necessary staffing adjustments where warranted.

Finally, with respect to ensuring timely compliance with performance requirements, the Ministry will develop a tracking process for the tabling of delegated authorities' annual reports in order to better monitor the movement of reports through the process within the Ministry and to take timely corrective action when necessary and within the Ministry's authority.

The Ministry will also improve its tracking of delegated authorities' performance statistics to ensure timely quarterly reporting to the Ministry on relevant performance measures.

MINISTRY OF EDUCATION

3.05–Curriculum Development and Implementation

BACKGROUND

The *Education Act* gives the Minister of Education broad authority over the "courses of study that shall be taught" to the province's 1.4 million elementary and 700,000 secondary students in its 4,000 elementary and 800 secondary schools. The province's 72 school boards are responsible for ensuring that their staffs comply with provincial policy on education and for helping teachers to improve their teaching practices and to deliver the curriculum effectively. School boards, through their trustees, are also accountable to the local electorate for the quality of education provided.

The process of reforming elementary and secondary education started with the creation of the Royal Commission on Learning by an Order-in-Council in May 1993. In response to the recommendations of the Royal Commission in December 1994, to the recommendations in our *1993 Annual Report*, and to public concerns about the quality of education, the Ministry of Education assumed full responsibility for curriculum policy and in 1996 undertook, for the first time, the development of a province-wide curriculum. The new elementary curriculum was introduced concurrently for all grades in September 1997 and 1998, while the new four-year secondary school curriculum was introduced one grade at a time, starting with the grade 9 curriculum in September 1999 and ending with the grade 12 curriculum in September 2002. The first students to graduate from secondary school after having been taught the new curriculum since grade 1 will be the 2009/10 cohort.

The Ministry estimated the costs of developing the new curriculum policy documents to be about $16 million between 1996 and 2000. It estimated that total implementation costs incurred between 1997 and January 31, 2003, were about $472 million, as outlined in the following table.

Estimated Costs of Implementing the New Curriculum from 1997 to January 31, 2003

	($ million)
New textbooks and learning resources[1]	301
Training for educators	80
Teacher resource materials	70
New report card	12
Ministry staffing costs	9
Total	**472**

[1] Includes $14 million from the federal government for French-language education

Source of data: Ministry of Education

Responsibility for curriculum policy and education programs rests primarily with the Curriculum and Assessment Policy Branch of the Strategic Planning and Elementary/Secondary Programs Division, and the French Language Policy and Programs Branch of the French-Language Education and Educational Operations Division, as set out in the following table.

Curriculum Responsibility and Resources

Branch	2002/03	
	Staff Complement	**Budget ($ 000)**
Curriculum and Assessment Policy	42	35,363*
French-Language Policy and Programs	16	11,157*

* Over 90% of these expenditures are for grants and service contract payments made to school boards, educational associations, and publishers for curriculum- and learning-resource-related projects.

Source of data: Ministry of Education

In response to a recommendation by the Royal Commission, the Education Quality and Accountability Office (EQAO) was established as a Crown agency in 1996. The EQAO's Board of Directors reports to, and operates under a Memorandum of Understanding with, the Minister of Education. Its main responsibilities are to evaluate and publicly report on the quality and effectiveness of elementary and secondary school education in Ontario and on the public accountability of the province's school boards. The EQAO had expenditures of $50.7 million for the year ended March 31, 2003.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit were to assess the adequacy of the Ministry's procedures for:

- ensuring that its curriculum meets the province's objectives for the education of students and that it is implemented cost effectively; and
- measuring and reporting on the effectiveness of both curriculum content and implementation and, where necessary, ensuring that appropriate corrective action is taken.

Our audit focused primarily on the related activities of the Ministry's Curriculum and Assessment Policy Branch and the French Language Policy and Programs Branch. We also interviewed EQAO personnel to gain an understanding of their procedures for conducting and reporting on the results of province-wide testing as well as other activities they have undertaken to fulfill their mandate. In addition, we interviewed administrative personnel and reviewed policy and other documentation at three English-language school boards and one French-language school board and interviewed a sample of principals and teachers, primarily from these school boards.

We identified audit criteria that would be used to conclude on our audit objectives. These were discussed with and agreed to by senior management of the Ministry and the EQAO.

Our audit was carried out from September 2002 to June 2003. The Ministry's Internal Audit Services Branch had not done any recent work that allowed us to reduce the scope of our work.

Our audit was conducted in accordance with professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such procedures as we considered necessary in the circumstances.

OVERALL AUDIT CONCLUSIONS

We concluded that the process by which the Ministry developed the new elementary and secondary curriculum was appropriate and found that, according to most of the educators we interviewed, it resulted in a good-quality product that was an improvement over what they had before. However, the process of implementing the new curriculum and related reforms is ongoing, and the Ministry and school boards did not yet have sufficient assurance that:

- adequate procedures are in place to ensure that the 4,800 schools throughout the province are teaching the new curriculum, that students are being properly and consistently assessed, and that best practices have been implemented; and
- there is sufficient appropriate information to assess the performance and management of schools with respect to student achievement.

Although we found general satisfaction with the content of the new curriculum, educators we interviewed expressed concerns regarding the way it was implemented. Their major concern was that the Ministry rushed the implementation with the result that a new curriculum and changes in student assessment practices were introduced before appropriate training, textbooks, and other materials were readily available. This made the initial years of implementation extremely difficult for students and teachers.

Educators also expressed concerns about the suitability of the new curriculum for weaker students. Recent studies and test results indicated that many students are still not succeeding under the new curriculum and that revisions to the curriculum or teaching strategies or both are required to help these "at-risk" students succeed.

While the Ministry and the school boards we visited have introduced initiatives to assist at-risk students, we found that the Ministry had not provided adequate guidance regarding the promotion of at-risk students. At-risk elementary students are promoted or transferred to the next grade without upgrading their knowledge and skills by participating in remedial programs. As a result, many students are entering secondary school without the educational foundation required to graduate.

We also concluded that the Ministry and the school boards we visited did not have sufficient, reliable student performance and contextual data to compare and interpret student achievement results and consequently were not able to:

- measure and report on the extent to which students have learned the new curriculum in grades and subjects other than those that are tested by the EQAO;
- measure the extent to which consistency in student assessment has been achieved among the province's 4,000 elementary and 800 secondary schools;
- identify and prioritize the problems underlying poor student achievement at under-performing schools, to develop viable improvement plans, and to measure and report on the extent to which the steps taken to improve student performance had been successful; and
- conduct the research necessary to address critical issues in curriculum delivery and provide the basis for informed decision-making.

The Ministry funded the development of course profiles and an electronic lesson planner to enable teachers to prepare lesson plans more efficiently and effectively. However, many teachers we interviewed did not consider these tools to be useful to them. Superintendents felt that a lack of computer literacy and access to computers was an impediment to increased use of these tools.

DETAILED AUDIT OBSERVATIONS

CURRICULUM DEVELOPMENT

Under the ministry policies and guidelines in place prior to the introduction of the new curriculum, school boards had considerable latitude regarding the curriculum that was taught, with the result that there was little consistency across the province. For example, for grades 10 to 13, the Ministry found that there were approximately 700 different courses across the province. (These have since been reduced to 184 standard secondary school courses.)

Coincident with the development of a new curriculum, the number of years of elementary and secondary schooling were reduced from 13 to 12, which is consistent with most other jurisdictions, and which was recommended by the Royal Commission on Learning in its 1994 report.

In establishing its new curriculum standards, the Ministry reviewed the curriculums of a number of other jurisdictions and took advice from, among others, a number of Ontario school boards, various subject associations (for example, the Ontario Association for Mathematics Education), and specialists in designated subject areas. In addition, for the secondary school curriculum, the Ministry established a validation process in which representatives from universities, colleges, business groups, the professions, and the trades assessed and ultimately approved the appropriateness of the learning expectations for post-graduation destinations: university, college, and the trades/workplace.

Structure of the New Curriculum

The Ministry's curriculum development process resulted in the publication of 41 curriculum policy documents in both English and French: 10 for elementary (including the Kindergarten Program) and 31 for secondary. The policy documents are organized into strands, which are broad areas of study or focus for each subject area in each grade (at the elementary level) and each course (at the secondary level). Each strand contains both overall and specific learning expectations describing the skills and knowledge the student is expected to acquire.

Each policy document also contains an achievement chart for each subject (at the elementary level) and for each discipline (at the secondary level). These charts are the framework used for assessment and evaluation of student achievement. They describe four different levels of achievement of the curriculum expectations. Level 3 (the second-highest level) is the provincial standard and identifies a high level of achievement of the provincial expectations.

The basic structure of the new elementary and secondary curriculums is set out in the following chart.

Structure of the Elementary/Secondary Curriculum

Grade 12	University Preparation Courses	University/College Preparation Courses	College Preparation Courses	Workplace Preparation Courses	Open Courses
Grade 11	University Preparation Courses	University/College Preparation Courses	College Preparation Courses	Workplace Preparation Courses	Open Courses
Grade 10		Academic Courses	Applied Courses		Open Courses
Grade 9		Academic Courses	Applied Courses		
Grades K–8		Elementary Subjects			

Source of data: Ministry of Education

In addition to the types of secondary school courses listed in the chart above, boards may offer:

- locally developed courses, with prior ministry approval, to serve local needs or interests, or the needs of special education students; and
- transfer courses to enable students who change their destination plans to upgrade their skills in a particular subject (for example, to change from Applied Math to Academic Math).

Students are expected to select their courses according to their ultimate destination. Thus, a student intending to study English at university would take University Preparation courses in English, but might take University/College or College Preparation courses in Mathematics. Academic courses in grades 9 and 10 serve as prerequisites for all four levels of grade 11 and 12 courses, whereas Applied courses do not satisfy prerequisite requirements for university preparation courses. Consequently, the majority of students choose academic courses in grades 9 and 10.

Views on Curriculum Content

The teachers and principals we interviewed supported the idea of having a province-wide curriculum. Almost all teachers we interviewed considered the new curriculum to be an improvement over what they had before, with more than 40% rating it as a major improvement. However, concerns were expressed that the new curriculum might not meet the needs of weaker students.

All the principals we interviewed believed that the new curriculum was as good or better for most students than what they had before. However, we received mixed views from principals on the suitability of the curriculum for weaker students at the elementary level and for the estimated one-third of secondary school graduates who join the workforce directly. Several secondary principals we interviewed were also concerned that the work habits of their work-bound students had actually deteriorated since its introduction.

Conclusion on Curriculum Development Process

The process by which the Ministry developed the new elementary and secondary curriculums was designed to ensure that provincial objectives, such as establishing a challenging, rigorous curriculum with high provincial standards, would be met; appropriate expertise and stakeholder involvement was employed in its development; and the curriculums of jurisdictions that had recently undertaken curriculum reform were used as benchmarks. Its appropriateness for weaker students is discussed later in this report.

IMPLEMENTATION OF THE CURRICULUM

With respect to curriculum implementation, school boards are responsible for ensuring that their staffs comply with provincial policy on education and for helping teachers to improve their teaching practices and to deliver the curriculum effectively. Principals are responsible for supervising and evaluating the performance of teachers in providing the appropriate instruction for their students and in evaluating student work and progress. Procedures for ensuring that school boards and their staffs comply with legal and policy requirements and perform their roles effectively are discussed later in this report.

Implementation Problems

The general satisfaction that educators had with the content of the curriculum did not apply to the way in which it was implemented. The primary concern was that the Ministry rushed the implementation with the result that:

- Teacher training on the new curriculum and on use of the achievement charts for evaluating student work was not conducted early enough or, in some cases, at all. The Ministry's "train the trainer program" was not viewed as a success by most educators we interviewed, primarily because insufficient release time (that is, time off during the instruction day) was set aside to implement this program at the schools. The Ministry stated that, in addition to the two days of release time per teacher for training on the new curriculum that it funded at a cost of $36 million, it expected teachers to do some of the required training on their own time.

  In this regard, the Ministry noted that, between 1999 and 2001, approximately 22,000 teachers obtained training in the implementation of the new curriculum on their own time at the Summer Institutes. (The Institutes are workshops managed by the Ontario Teachers Federation and funded by the Ministry. They were initially established to assist teachers in upgrading their skills to implement the more rigorous curriculum. They have evolved into a more general professional-development vehicle for teachers and include topics such as classroom management in addition to subject-specific courses.) Principals and superintendents stated that, because some of their teachers were either reluctant or unable to attend courses after hours during the school year or during the summer, the number of professional development (PD) days should be increased from four to at least eight per year.

- Appropriate textbooks and classroom materials were in many cases not available when classes commenced, making the initial years of implementation extremely difficult for students and teachers. However, the majority of teachers we interviewed indicated that this problem is being resolved over time as publishers introduce new textbooks and supporting materials. Suitable textbooks now exist for core English-language elementary and secondary subjects and courses. Availability remains an issue, however, for French-language grades 7 to 12—there are still a number of courses for which the Ministry has not yet approved a textbook—and for non-core courses such as visual arts in both languages.

Focus of Teacher Training

The primary ongoing concern of both teachers and principals whom we interviewed was training. The two most common suggestions made by teachers we interviewed regarding how training could be improved were to:

- offer more grade-level courses open to teachers from a number of schools, in order to provide opportunities to discuss successful instructional strategies and techniques with a wider range of colleagues; and
- (particularly emphasized by elementary teachers) orient courses more to the actual implementation of strategies and techniques rather than to the largely informational sessions that they had attended so far.

Use of Teacher Supports

The introduction of a province-wide curriculum to be used by all teachers, versus the variety of curriculums previously in use, made it practical for the Ministry to assist teachers in the delivery of the curriculum by funding the development of tools for common use, such as:

- *course profiles*, which were created, at a cost of $33 million, by boards and subject associations to assist secondary teachers in delivering each course. The profiles build upon the specific learning expectations set out in the policy document for each course; provide teachers with a suggested sequence for presenting each concept; and specify the amount of time that should be devoted to each strand. They also include suggested teaching strategies and a list of resources that the teachers may want to consider using during the course. The profiles are available to teachers in electronic format so that they can customize and incorporate them into their lesson plans.

- *the curriculum unit planner*, a software tool that cost $3 million to develop and is intended to enable both elementary and secondary teachers to efficiently develop lesson plans for each subject or course.

Despite the significant efforts by leading educators that went into developing the course profiles, only one-third of the secondary teachers who responded to our questionnaire rated the profiles as adequate in respect to usefulness. This result is consistent with the finding in the Ministry's June 2001 Mathematics Survey that teachers had not "used the course profiles to any extent." Only about 60% of the elementary and secondary teachers that we interviewed rated the unit planner as useful. Superintendents we interviewed thought that insufficient computer literacy was an impediment to greater use of these and other software tools. As well, teacher access to computers is an issue because school boards we visited did not provide teachers with PCs. We were told by the superintendents we spoke with that doing so is an objective but not a high priority one.

Recommendation

To help ensure that future revisions to the curriculum are implemented more effectively, the Ministry should ensure that:

- **teachers receive appropriate training prior to implementation; and**
- **educational publishers have sufficient lead time to develop appropriate textbooks and classroom materials.**

To help improve the implementation of the current curriculum, the Ministry should work with school boards to ensure that teachers receive more specific implementation training, including training on the use of tools such as the course profiles and unit planner.

Ministry Response

Teacher training and classroom resources are important components of an effective implementation plan.

The Ministry is pleased that the audit report recognizes that the process for developing the new curriculum was appropriate and that most educators the auditor interviewed consider the curriculum to be a high-quality product.

Over $300 million was spent on textbooks and learning resources to support the new curriculum from kindergarten to grade 12 in both English and French. As a result of ongoing textbook development, an increasing number of grade 11 and 12 textbooks have since been made available for French-language core and non-core courses for the 2003/04 school year. If new funds were to be allocated to learning resources, ensuring the availability of appropriate textbooks for additional subjects and courses will be considered.

The Ministry is implementing a multi-year plan to sustain a quality curriculum. As part of our plan, we will continue to work with our educational partners to

ensure that teachers receive appropriate and timely training to implement future curriculum change. We will also work with our partners to identify areas for additional focused and practical training and with publishers and other interested stakeholders so they have the necessary lead time to develop appropriate resources to support curricular revision.

ADDRESSING THE NEEDS OF AT-RISK STUDENTS

One issue that teachers and principals raised regarding the content of the new curriculum was its suitability for weaker students. Educators stated that both the elementary and secondary curriculums cover more material and are more challenging than the old curriculums. This leaves less classroom time for students to master each concept, and as a result, weaker students may fall behind. By the time they enter secondary school, these students are at risk of being part of the 25% of students noted in the Ministry's October 2002 "Double Cohort Study—Phase 2 Report" who leave school without obtaining an Ontario Secondary School Diploma.

Promotion without Remediation

We found that there was strong agreement among the teachers we interviewed that students need to perform at least at level 2 (60-69%) in a subject in order to have a sufficient understanding of the key learning expectations to succeed in subsequent grades. The Ministry, however, has set the pass rate at level 1 (50-59%), with the result that students at this performance level are promoted to the next grade without any requirement that they take steps to raise their understanding of key concepts to at least level 2 by attending summer school or doing other remedial work.

Under the *Education Act*, promotion decisions are made primarily by principals. We were told by the elementary school principals we interviewed that even students who perform below level 1 are normally transferred to the next grade. This practice is known as "social promotion." Although teachers and principals might recommend that these students upgrade their knowledge and skills through summer school or other remedial programs, they do not require them to do so as a condition of being promoted. The Ministry stated in its 2001/02 business plan that it intended to require that schools promote only those students who achieved at an acceptable level, that is, one that would ensure that they had the skills and knowledge needed to progress through the education system. However, no action was taken to implement this intention.

None of the boards we visited tracked and monitored the extent to which students who achieved below level 2 participated in remedial programs or the impact of such programs on students' subsequent performance. One administrator who co-ordinated all the remedial programs at one of the boards stated that the proportion of at-risk students who took advantage of the board's remedial programs was quite low, and that it varied significantly among the board's schools. Low participation in remedial programs may be a major reason why at-risk students fail to acquire the knowledge and skills necessary to succeed at secondary school.

In the United States, the Chicago Public Schools (CPS), which ended social promotion in the 1996/97 school year, reported in 1999 that the percentage of grade 3, 6, and 8 students who had marks good enough to pass to the next grade increased to 82% from 76% in 1997. The chief executive officer of CPS stated that the improvement would not have happened without mandatory summer school for failing students coupled with the threat of being retained. Although other jurisdictions are experimenting with more stringent promotion policies, such as the mandatory summer school programs at the CPS, the Ministry has not introduced any policy directive pertaining to promotion decisions or remedial programs.

The results on the 2002 Ontario Secondary School Literacy Test (OSSLT) and the grade 9 math test confirm that many students have not acquired sufficient literacy and math skills. The OSSLT is designed to test only basic literacy skills, not students' comprehension of the secondary school curriculum. Yet 28% of first-time and 52% of previously eligible writers were unable to pass this basic skills test after nine and 10 years of schooling respectively. Students taking mostly Applied courses performed particularly poorly on the OSSLT, with a 62% failure rate among first-time eligible students.

Ontario Secondary School Literacy Test

	# of Students Writing		# of Students Failing		% of Students Failing		% Increase (Decrease)
	Feb/02	Oct/02	Feb/02	Oct/02	Feb/02	Oct/02	
First-time eligible students							
Academic program	66,577	98,668	8,655	14,945	13	15	2
Applied program	21,581	30,233	12,085	18,807	56	62	6
Program not specified	38,637	2,825	9,096	1,121	24	40	16
Locally developed programs	2,237	4,302	1,969	3,696	88	86	(2)
Overall results	129,032	136,028	31,805	38,569	25	28	3
Previously eligible students							
Required to pass reading only		10,385		5,075		49	
Required to pass writing only		5,848		776		13	
Required to pass both tests		17,075		11,430		67	
Overall results		33,308		17,281		52	
All Students Writing		**169,336**		**55,850**		**33**	

Source of data: EQAO

As shown in the table that follows, students taking Applied Mathematics also performed poorly on the 2002 EQAO grade 9 math test. Only 58% (37% level 2 + 21% level 3) were able to achieve the minimum level 2 performance that teachers feel is necessary to succeed in subsequent grades.

EQAO Grade 9 Math Test Results

	# of Students Writing	Exempt, or Not Enough Data to Score (%)	Below Level 2 (%)	Level 2 (%)	Level 3 (%)	Level 4 (%)
Applied 2000/01	41,973	21	40	26	13	0
Academic 2000/01	95,669	5	20	25	45	5
Applied 2001/02	47,220	15	27	37	21	0
Academic 2001/02	99,094	5	15	17	58	5

Source of data: EQAO

The test results for students taking Applied courses confirm that many of them are at-risk students. Educators variously attributed the lack of success of these students to a curriculum that is too hard, poor work habits and low motivation, and ineffective instructional techniques. The primary concern regarding poor work habits was the failure to complete assignments, a finding that was also noted in the Ministry's June 2001 Mathematics Survey. A study performed at one board, in connection with a doctoral thesis, also with respect to mathematics, found that secondary school teachers felt that social promotion in elementary school resulted in the affected students not having "the [necessary] background in Math" or the motivation to do the work required to succeed. In this regard, the teachers noted that some grade 9 students were unconcerned about their lack of math skills, "having the misperception that even if they did not understand the material, they would be promoted anyway, just like in elementary school."

With respect to the need to adopt different instructional techniques for students in applied courses, some of the secondary school math teachers interviewed in the above study noted that students in Applied Mathematics responded better to a different type of instructional method than that used in the traditional approach to teaching mathematics. Another study conducted by the same board to identify problems with the implementation of the new secondary school curriculum observed that "many teachers, especially new ones, have not the [instructional] strategies and tactics necessary to deal with students in Applied classes."

Ministry Initiatives Regarding At-risk Students

The Ministry introduced an Early Reading Strategy in 2001 to help teachers to better assist students in acquiring a strong foundation in this core skill area in grades 1 to 3. It also plans to introduce a similar Early Math Strategy for grades 1 to 3 and to expand the Early Reading Strategy to grade 6 beginning with the 2003/04 school year.

In November 2002 the Ministry assembled the At-Risk Working Group, composed of representatives from school boards and other major stakeholder groups, to provide the Ministry with recommendations to improve the performance of at-risk students. The recommendations in the Group's January 2003 report included: developing an inventory of successful school practices in the areas of literacy and numeracy, the application of diagnostic assessments to identify and track at-risk students, and teacher training and information sharing on assessment and instructional methodologies.

In March 2003, the Ministry announced a $50 million program to address the Group's recommendations. One of the objectives of this program and the Early Reading and Math Strategies is to address the problem of ineffective teaching strategies for at-risk students. However, these programs are not designed to address the deficiencies in student work habits that teachers believe are an important factor in poor performance at the secondary level.

In addition, in February 2003, the Ministry began a systematic review and update of all curriculum policy documents from grades 1 to 12. This review will be completed over a five-year period, starting with the Social Studies/History and Geography elementary curriculum and the Canadian and World Studies secondary curriculum. The appropriateness of the curriculum for Applied students will be considered as part of this review.

Recommendation

To help ensure that the curriculum serves the needs of all students, the Ministry should:

- **develop policy guidance governing the promotion of at-risk students, including ways to increase participation in remedial programs such as summer school, to help ensure that all students acquire the knowledge, skills, and work habits required to succeed in subsequent grades and ultimately to obtain an Ontario Secondary School Diploma; and**
- **require boards to track the participation of at-risk students in remedial programs and to assess the effectiveness of the programs in improving student performance.**

Ministry Response

Addressing the learning requirements of students at risk of not succeeding is a ministry priority. We are pleased that the audit report recognizes the Ministry's commitment to students who are at risk through initiatives related to the implementation of the recommendations of the At-Risk Working Group report, and the additional funding provided to support these initiatives.

The Ministry will provide support to principals to ensure effective promotion practices for at-risk students, including the possibility of participation in a range of remedial programs. The Ministry will work with boards to develop processes to track student participation in remedial programs and to assess how effective the programs are in improving student performance. We will introduce appropriate accountability measures relating to the at-risk student funding provided to boards. The Ministry is also committed to implementing

the recommendations related to remediation put forward by the At-Risk Work Groups and Expert Panels. The Ministry will continue to review the research on the impact of social promotion and student retention.

MONITORING CURRICULUM QUALITY AND IMPLEMENTATION

One of the recommendations made by the Royal Commission on Learning was that an agency, independent of the Ministry, should construct, administer, mark, and report on large-scale assessment of student achievement. It was the Commission's view that large-scale, system-wide testing was necessary "as a check on student learning at a few critical transition points, and as a vehicle for assuring people that, at those points, all students are being assessed according to the same yardstick."

Following this recommendation, the Education Quality and Accountability Office (EQAO) was established as a Crown agency in 1996. Its Board of Directors reports to, and must operate in compliance with, a Memorandum of Understanding (MOU) with the Minister of Education. The EQAO's legislated mandate is:

- to develop systems for evaluating the quality and effectiveness of elementary and secondary school education, including developing tests and administering and marking tests of pupils in elementary and secondary schools;
- to research and collect information on assessing academic achievement;
- to evaluate the public accountability of boards and collect information on strategies for improving that accountability; and
- to report on and make recommendations regarding the effectiveness of elementary and secondary school education and on the public accountability of boards.

The EQAO develops, administers, and marks two types of large-scale tests for the province's elementary and secondary students:

- the Ontario Secondary School Literacy Test (OSSLT), which is normally written in grade 10 and is used to determine whether students have acquired the basic literacy skills as expected at the end of grade 9; and
- grade 3 and 6 tests of reading, writing, and mathematics, and the grade 9 Academic and Applied mathematics tests, which are used to determine the extent to which students have achieved the learning expectations set out in the curriculum for these subject areas.

The EQAO is also responsible for managing and reporting on the province's participation in national and international tests. These tests show how well Ontario students acquired certain core knowledge and skills compared with students in other jurisdictions. As a history of results subsequent to the implementation of the new curriculum is developed, these test results will serve as a competitive benchmark against which the quality of the Ministry's curriculum and its delivery by school boards can be assessed.

Despite its comprehensive mandate, the EQAO's activities have so far been limited to administering the aforementioned tests, reporting the results with some analysis, and providing guidance to school boards on improvement planning.

Validating the EQAO's Testing Practices

In addition to using comparisons of the annual EQAO results of schools to identify potential problems, multi-year, large-scale test results are intended to enable the Ministry and boards to monitor the trend in student performance over time in order to determine whether student achievement is improving, staying about the same, or declining.

Trends are meaningful, however, only if year-to-year results are comparable. Thus, the EQAO has procedures that are intended to ensure that year-to-year changes in the marks on its tests reflect changes in student performance rather than changes in the level of difficulty of the tests. The EQAO's test development process includes field tests to obtain assurance that each set of tests is of similar difficulty; however, this step alone cannot guarantee that each year's tests will be of the same level of difficulty. Consequently, the EQAO also uses a complex, statistically driven process known as "equating" to compensate for differences in test difficulty.

At the time of our audit, the EQAO's procedures for designing and reporting results on its large-scale tests had not been subjected to an independent examination by experts in the field of psychometrics. In view of the importance of the decisions that are based at least in part on EQAO results and the professional judgments required to design and administer complex testing processes, early in 2003 the EQAO engaged independent experts to review its processes. It is expected that the review will be completed by March 2004.

Achieving Consistency in Student Assessment

In connection with the introduction of a new curriculum, the Ministry implemented policies governing student assessment practices with the goals of:

- improving student learning;
- developing greater consistency in assessment and evaluation practices; and
- providing clarity in reporting.

Previously, boards had had considerable flexibility in their assessment practices. We were told at the schools we visited that practices had varied at the school level within boards and, at large schools, even within individual schools. During previous audits, we were told by admissions personnel at some universities that assessment practices varied so widely between secondary schools that it was necessary to develop processes for taking these differences into account in making admissions decisions.

To help meet its goals, the Ministry developed standard report cards and achievement charts that must be used by all schools. It also funded the development of: exemplars for both elementary and secondary subjects/courses; and an assessment and evaluation resource guide for secondary school teachers. The exemplars build on the achievement charts in the Ministry's policy documents and provide teachers with examples of actual student work that the specialist teams have evaluated as representing level 1 (50-59%), 2 (60-69%), 3 (70-79%), and 4 (80-100%) work. Because they use actual student work, the exemplars were not available until the year after the implementation of the curriculum and consequently will not be available for grade 12 courses until the 2003/04 school year. Exemplars were rated as being adequate or excellent by 82% of elementary and 71% of secondary teachers we interviewed.

The boards we visited have also undertaken measures, such as providing training for teachers and principals in student assessment, developing and publishing guides on appropriate assessment practices, and encouraging principals to place higher priority on ensuring that their teachers follow appropriate student assessment practices. However, neither the Ministry nor the boards we visited had implemented procedures for monitoring and reporting on the extent to which consistency in student assessment has been achieved.

We note that most of the principals and teachers we interviewed believed that consistency in assessment was improving within their individual schools. Particularly at the secondary level, though, they felt that board-wide consistency in student assessment had not been achieved.

One possible method of measuring consistency in assessment for at least some grades and subjects is to compare report card marks to student performance on the grades 3, 6, and 9 EQAO tests. Although effective classroom assessment will involve a wider variety of assessment approaches at more frequent intervals, the expectation would be that the final report card marks of most students in reading, writing, and math for grades 3 and 6, and in math for grade 9, would be comparable to their EQAO test marks. The superintendents we interviewed advised us that their boards planned to do this once the EQAO begins reporting student marks using the Ontario Education Number, the unique identifier for each student that the Ministry plans to introduce in September 2003.

One way to obtain additional benchmark information for assessing consistency in student assessment in other grades and subjects would be to implement additional EQAO tests on all core subject areas at key points, such as grade 8 and 12 exit tests. For example, Alberta administers grade 12 diploma exams that count for 50% of students' final marks in 12 core courses. Alternatively, province-wide exams could be used in place of class or school exams, particularly if accompanied by independent team marking. Such exams would thus provide a benchmark against which other classroom assessments could be compared. We note that the superintendents we spoke with could not describe any benefits to having more than 4,000 different exams across the province for the same subject at the elementary level and 800 or more exams for the same course at the secondary level, given that all exams are expected to assess achievement of the same learning expectations.

Gaps in Student Achievement Information

As well as providing benchmark information for assessing consistency, the use of province-wide classroom exams or additional EQAO tests would help solve the problem of insufficient information about student achievement levels, particularly in secondary schools. As the Task Force on Effective Schools noted in its June 2001 report, "At the secondary level …we know almost nothing on a province-wide basis about achievement levels. The available information comes from teachers and from examinations set by individual schools, and very often by individual teachers. The new grade 9 math test and the grade 10 literacy test administered by the EQAO will tell us more about students' elementary education than about their achievements at the secondary level." As of 2003, this was still very much the case.

Strengthening Implementation Processes

The Ministry and school boards were still in the process of implementing the new curriculum and related reforms. We concluded that they did not yet have sufficient assurance that:

- adequate procedures are in place to ensure that the 4,800 schools throughout the province are teaching the new curriculum, that students are being properly and consistently assessed, and that best practices have been implemented; and
- appropriate accountability frameworks are in place—for example, the Ministry does not know whether trustees and school councils receive adequate information to assess the performance of their managements and schools with respect to curriculum implementation and student achievement, or whether if they do get such information, they use it properly.

Such assurance could be obtained by conducting accreditation reviews such as those recommended by the Task Force on Effective Schools in its June 2001 report. The Task Force recommended that an agency at arm's length from the Ministry design and implement an accreditation process for school boards and schools. The recommended scope of the accreditation examinations included:

- the process used by boards to review their schools' performance and curriculum delivery;
- the adequacy and accuracy of information about student performance;
- the process by which resources were allocated by the board to support student learning; and
- the adequacy of board and school improvement plans.

The scope of the first two items could be expanded to include student assessment practices and would thereby provide additional information on and more confidence regarding the consistency across the province.

If a system of province-wide subject and course exams accompanied by reviews of school assessment practices helped achieve the Ministry's consistency objective, the Ministry would then be in a position to reconsider the need for large-scale testing by the EQAO.

We also note that having comparable student performance results among the schools of each board, and especially among all schools within the province, would provide schools, school boards, and the Ministry with valuable information for identifying problems and best practices and would also help trustees and school councils hold their managements and principals accountable for results.

The Ministry has not acted upon the recommendation by the Task Force.

Measuring Outcomes

While the Ministry publishes the province's ranking on national and international tests as an indicator of its performance regarding curriculum quality, neither the Ministry nor the EQAO has developed outcome-oriented measures of effectiveness for the elementary/secondary education system. Some possible measures include the percentage of students entering secondary school who graduate, the percentage of graduates who obtain degrees and diplomas from universities and colleges or who successfully complete apprenticeship programs for the trades, and employer satisfaction surveys for graduates who go directly into the workforce.

Recommendation

To help determine whether the Ministry's expectations for curriculum reform are being met, and to enhance the public accountability of school boards, the Ministry should:

- **implement procedures to monitor and report on consistency in teachers' student assessment practices throughout the province;**
- **assess the benefits of developing common province-wide exams;**
- **establish a process for strengthening school board implementation processes, the scope of which includes evaluating the adequacy of key curriculum delivery, student assessment, improvement planning, and results reporting procedures of school boards; and**
- **develop and report on outcome-oriented measures of effectiveness for elementary and secondary education.**

Ministry Response

Ensuring greater consistency in student assessment and evaluation and enhancing school board accountability are objectives which the Ministry supports.

The Ministry has invested in strategies, resources, and teacher training to improve consistency in the assessment of student achievement. We are

pleased that principals and teachers whom the auditor interviewed believe that consistency in assessment is improving in their individual schools.

The Ministry will work with boards to develop ways to monitor and report on consistency in student assessment. We will research and develop ways to ensure greater consistency in final evaluations of student achievement and research appropriate outcome measures. We will continue to consult with school board leaders on how to enhance accountability measures related to curriculum implementation.

STRENGTHENING IMPROVEMENT PLANNING AND RESEARCH

At present, EQAO test results represent the only comprehensive data available on the performance of students across the province. The table below presents a summary of the results since the tests were introduced.

EQAO Results—Students Who Achieved at Levels 3 and 4 as a % of Enrolment

						2001/02 Compared to:	
	1997/98 (%)	1998/99 (%)	1999/2000 (%)	2000/01 (%)	2001/02 (%)	1st Year (%)	3rd Year (%)
Grade 3							
Reading	46	45	49	49	50	4	1
Writing	49	52	52	52	55	6	3
Math	43	56	57	61	58	15	1
Grade 6							
Reading		48	50	55	55	7	0
Writing		48	48	52	53	5	1
Math		46	51	54	54	8	0
Grade 9 Math							
Applied				13	21	8	
Academic				50	64	14	

Source of data: EQAO

In response to EQAO results, schools, boards, and the Ministry have taken steps to improve student performance on EQAO tests. Some steps provided a one-time increase in the level of student performance. For example, we were told by educators we interviewed that designing classroom problems in a format that is substantially the same as that used on EQAO tests, so that students are familiar with the format, improves student performance on the tests. The impact of such initiatives on student performance appears to be diminishing since, as can be seen in the table, there has been little improvement in the proportion of students performing at or above the provincial standard (level 3) after the third year of testing.

Other steps taken that are intended to contribute to a long-term improvement in performance include:

- Boards we visited provided some additional resources to their lowest-performing schools, such as more time from consultants or other assistance, to facilitate the implementation of instructional practices that were better suited to the students concerned. For example, we visited an elementary school that had been among the lowest-performing schools in the province on the EQAO tests. The school changed its approach to language instruction and purchased a program, including textbooks, that supported the new approach, and subsequently experienced a significant improvement, as anticipated, on the EQAO reading and writing tests. In addition, the school achieved much better results on the math test, which the principal and teachers believed resulted from their students being better able to understand the questions due to their improved language skills. In addition to school-based initiatives, EQAO results also provided the impetus for some boards to implement remedial programs, such as summer literacy camps, and tutoring programs whereby high-performing students in senior secondary grades assist students in junior secondary grades who are having problems.
- The Ministry used EQAO results to identify schools that were eligible for assistance under its Support for Schools That Need Extra Help Program. This three-year, $5 million pilot program was announced in October 2001. Schools where less than one-third of students have achieved at levels 3 and 4 on the EQAO grade 3 test for three consecutive years are eligible for assistance. The Ministry has selected 29 of the 58 eligible schools identified so far and plans to increase the number to 40-45. Under the program, specialist teams composed of former principals and university experts assist selected schools in diagnosing the reasons for their poor performance and in developing strategies for corrective action. The schools base their improvement plans on this information, submit them to the Ministry, and each may receive financial assistance over three years to assist them to implement their plans.

Further gains in student performance will have to be achieved through school and board improvement planning processes that result in the causes of poor student performance being identified and appropriate corrective action being implemented, such as changes in instructional strategies and techniques. At the time of our audit, however, none of the boards we visited had established effective improvement planning processes due to the absence of certain key requirements, such as:

- sufficient, accurate, and comparable student performance and contextual data useful for interpreting achievement results as well as information systems that are capable of supporting the collection and analysis of such data. The Ministry has not established standards regarding the minimum capabilities and content of student information systems. As a result, we found, for example, that the boards we visited did not record data on their student information systems such as participation in remedial programs or the failure to complete homework (identified in one study as "the single biggest detriment to student achievement"). As noted earlier in this report, neither the Ministry nor the boards have procedures in place to provide assurance that student performance data is comparable;

- appropriate training to ensure that school and board personnel have the knowledge and skills necessary to use the systems and perform the analyses needed to identify and prioritize problems, develop viable plans with challenging but realistic objectives, establish appropriate interim milestones to measure progress in achieving these objectives, and measure and report on the extent to which the plans' objectives have been achieved; and
- procedures to assess the quality of the improvement planning processes in place at schools and at school boards, and to ensure that corrective action is taken where deficiencies in the processes are identified. At the time of our audit, the boards we visited had not established formal review processes for their schools' improvement plans, although one board was planning to do so with respect to the plans for the 2003/04 school year.

Every school board is required to submit a board improvement plan to the EQAO that meets specific content requirements established by the agency. The EQAO reviews and provides comments on each board's improvement plan in relation to its published criteria. However, these reviews do not include such matters as determining whether problem identification is consistent with the EQAO results for the board overall and for its schools, or whether appropriate progress reporting procedures are in place.

Research to Support Decision-making

In addition to its impact on improvement planning processes, the lack of sufficient, comparable student performance data and suitable computer support systems to capture and analyze contextual data also limits the ability of the Ministry and school boards to conduct the research necessary to address critical issues in curriculum delivery and to provide the basis for informed decision-making. While the EQAO has established an Education Quality Indicator Program to collect some contextual data that is intended to help readers interpret student achievement results it publishes, the data is useful primarily in identifying areas of focus for further study and research. However, the Ministry had not, either directly or through the EQAO, routinely sponsored research or co-ordinated educational research carried out by school boards and the province's universities. Given that several school boards have established their own research and evaluation functions, some co-ordination of their efforts would increase the cost effectiveness of research and benefit all school boards.

There are many significant issues that research could help address. For example:

- Even though the correlation between lower socioeconomic status and poor performance is well documented, it is not inevitable. We found a number of reports of schools in

Ontario and other jurisdictions where students coming primarily from economically disadvantaged families performed well. Research that identified the factors that actually cause this relationship would assist educators in determining the strategies that they should employ to improve the performance of these students.

- Some educators have suggested that larger classes for high-performing students and smaller classes for low-performing students who require greater assistance would increase the number of students who meet provincial expectations.
- While some educators believe that using subject specialists rather than generalists to teach grade 7 and 8 students improves student achievement, the extent to which this is true and whether any observed improvement in student achievement carries through to students' grade 9 report card marks and their marks on the EQAO grade 9 math test and the OSSLT have not been studied.
- The College of Teachers and the Task Force on Effective Schools—as well as research that we reviewed—concluded that teacher quality is the most important factor influencing student achievement. While the Ministry and school boards are at present implementing a new teacher-performance evaluation process, the Ministry has not implemented methods of tracking the impact of teaching quality on student achievement, as is done in some other jurisdictions (for example, the Tennessee Value-Added Assessment System). A recent Canadian study, "Teacher Quality in Canada," stated that "Canada has not yet utilized multi-year comprehensive student achievement data in order to measure teacher effects on learning or value-added achievement gains. Even where such data are available, we do not yet have a culture within the public education system that fully recognizes its potential value."

Clearly, there are many issues that school boards and the Ministry need to examine if significant improvements in student performance are to be achieved. A co-ordinated effort will help ensure that research is conducted cost effectively. In this regard, in July 2003, the EQAO initiated an external research program in which proposals for reports and analyses on topics relevant to the work of the EQAO were solicited. The research program may also include critical literature reviews that have implications for policy on assessment and educational improvement.

Recommendation

To help ensure that decisions regarding curriculum delivery are based upon sufficient and reliable information, and to enhance the effectiveness of the improvement planning process, the Ministry should:

- **establish standards regarding the capability of student information systems that school boards use and the information that is recorded on them;**
- **co-ordinate and support training for school and board personnel in implementing effective improvement planning processes;**

- **implement, either through the Education Quality and Accountability Office or otherwise, a review function for school board and school improvement planning processes that includes on-site examination; and**
- **co-ordinate and support research on key curriculum delivery issues.**

Ministry Response

Research, data management, and information systems support effective decision-making and improvement-planning processes.

The Ministry has trained board teams on how to use assessment data to inform improvement planning and sponsored three regional symposia on "Data Driven Decision-Making for School Improvement." Approximately 2,000 school board administrators were trained to use quality data to support improved decision-making.

The Ministry is developing standards to guide boards in their data management. The Ministry and the Education Quality and Accountability Office will also work with the Council of Ontario Directors of Education to determine cost-effective ways to improve school improvement planning processes. We will continue working with the education sector to ensure that decisions regarding curriculum delivery are based upon sufficient and reliable information. In addition, the Ministry will commit to continuing support for research, dependent on the availability of appropriate resources.

EVALUATING THE ANNUAL EDUCATION PLAN/ TEACHER ADVISER PROGRAM

In order to help meet the objective of creating "effective links to work and higher education," the Ministry included a for-credit career education course in the curriculum and required school boards to offer co-operative education/work experience opportunities, and to provide the Teacher Adviser Program (TAP) and the Annual Education Plan (AEP) for their students.

In September 1999, the Ministry began requiring that principals establish the TAP for students in grades 7 to 11, with the option of providing the program for students in grade 12. In July 2001, the Ministry revised the policy to encourage but not require the assignment of a teacher adviser for students in grades 11 and 12. The AEP was also introduced by the Ministry in 1999 for students in grades 7 to 12 and was designed to help students take responsibility for their education, make informed decisions, and plan for their futures with the help of parents, teacher advisers, and guidance counsellors.

At the elementary level, teachers and principals felt that these initiatives were beneficial because they encouraged students to think about the fact that what they do in school has an impact on their future. Secondary teachers and principals generally agreed with this benefit, but most felt that the AEP and TAP programs were not effective as implemented for the following reasons:

- Classroom teachers did not feel that they had the knowledge required to provide students with advice regarding their career choices—this is the role of guidance teachers. They also stated that, given the timetabling realities of the typical secondary school, it is impossible to obtain the continuity that is required for teachers to know enough about their students to function effectively as advisers.
- Principals and teachers stated that students have no immediate incentive to take the process seriously. They told us that students are motivated by marks. Since there are no marks associated with the AEP and TAP programs, students will not put much effort into them.

The majority of educators at the secondary level were of the opinion that it would be better to reallocate the resources attached to these initiatives to other areas—for example, more guidance teachers—as opposed to trying to fix the two programs.

In addition to the concerns raised by educators, we noted that:

- The Ministry has not established measurable objectives for the program, or developed any procedures to monitor its effectiveness.
- At the secondary schools that we visited:
  - AEPs were not critically assessed by teacher advisers. Thus, students are allowed to state that they plan to do better in math without an adequate explanation as to how this is to be accomplished other than the generic "work harder" or "study more."
  - In the AEPs that we reviewed, students were not asked to note in their AEPs any of the post-graduation destinations that they were considering. Thus there was no link between the AEP and career objectives and no basis for advising, for example, a "C" student in math that some of his or her career destinations typically require a B+.
  - There is no formal process to monitor progress on achieving the objectives noted in the AEP. For example, if improving his or her mark in math was a student's objective, we would expect to see milestones established, such as a trend of improving marks on assignments and midterm tests and, if the milestones were not met, evidence of a discussion of the corrective action (that is, remedial work of some sort) that was taken.

Recommendation

In order to help ensure that appropriate benefits are realized from the Annual Education Plan/Teacher Adviser Program, the Ministry should, in conjunction with school boards and principals, formally assess the success of the program in meeting the needs of the students. If the assessment is positive, measurable objectives for the program should be established.

Ministry Response

The Annual Education Plan and Teacher Adviser Program is considered an important tool to help students achieve their educational goals.

Ministry policy already requires school principals to conduct a survey every three years with students, parents, teachers, and community members to determine the effectiveness of the school's guidance and career education program, including the Annual Education Plan and Teacher Adviser Program.

The Ministry will undertake a review of the implementation of the Annual Education Plan and Teacher Adviser Program in Ontario schools. This review will involve key education stakeholders, including principals.

MINISTRY OF ENTERPRISE, OPPORTUNITY AND INNOVATION

3.06–Business and Economic Development Activities

BACKGROUND

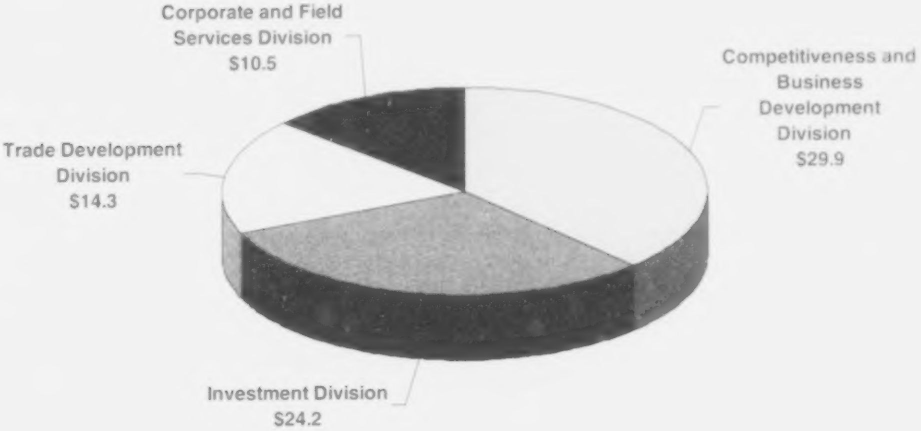
The Ministry of Enterprise, Opportunity and Innovation was created on April 15, 2002 with the amalgamation of the science and technology activities of the former Ministry of Energy, Science and Technology with the business and economic development activities of the former Ministry of Economic Development and Trade. The Ministry's mandate is to foster an Ontario with competitive businesses and a prosperous economy by promoting innovation, economic growth, and job creation.

The Ministry has four divisions employing 300 staff who deliver its business and economic development activities:

- The Competitiveness and Business Development Division supports business development, manages the government's relationship with various industry sectors, and delivers the Strategic Skills Investment program, which provides financial support to training institutions to develop job skills for Ontario's labour market.
- The Investment Division attracts investment to the province, marketing it as a premier investment location using advertising and promotion and by generating business leads and providing investment services.
- The Trade Development Division is responsible for increasing Ontario's global exports by working with Ontario-based firms (mainly small- and medium-sized enterprises) to expand their exports worldwide. A government agency, Ontario Exports Inc., carries out most of the responsibilities of this Division.
- The Corporate and Field Services Division offers financial and management advice to businesses and entrepreneurs and operates a network of field offices and small-business enterprise centres to promote growth, export activity, and job creation.

For the 2002/03 fiscal year, the Ministry's funding for its business and economic development activities was $78.9 million, which was allocated to the four divisions as outlined in the following chart.

Business and Economic Development Expenditures by Ministry Division, 2002/03 ($ million)



Source of data: Ministry of Enterprise, Opportunity and Innovation

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit of the business and economic development activities of the Ministry of Enterprise, Opportunity and Innovation were to assess whether it had adequate procedures in place to:

- measure and report on the activities' effectiveness in promoting competitive businesses and a prosperous economy; and
- ensure that resources are managed with due regard for economy.

The criteria used to conclude on our audit objectives were discussed with and agreed to by ministry management and related to systems, policies, and procedures that the Ministry should have in place.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The scope of our audit fieldwork, which was substantially completed by March 2003, included discussions with relevant staff, as well as a review and analysis of documentation at the head offices of the Ministry and of Ontario Exports Inc. We also visited several training institutions that were recipients of Strategic Skills Investment grants to review their implementation of training programs.

Our audit also included a review of the activities of the Ministry's Internal Audit Services Branch. The Branch had recently carried out audits of the Strategic Skills Investment program, employee travel expenses, and consulting services. We reviewed these audit reports and adjusted the scope of our work where possible.

OVERALL AUDIT CONCLUSIONS

We concluded that the Ministry did not have the necessary strategic planning processes and information systems to support training institutions in addressing skills shortages and to assist Ontario businesses in expanding their export potential. Furthermore, we noted a number of instances where procedures to ensure due regard for economy needed to be improved. For example, we noted the following:

- The Ministry had not evaluated the Strategic Skills Investment (SSI) program to determine whether the program was successful in addressing the current and anticipated skills needed to ensure business competitiveness in Ontario and to ensure that students obtained employment in their respective areas of training. The Ministry had created a database for the intended purpose of measuring the program's success, but we found that the system could not generate reliable information. Furthermore, approximately 75% of ministry SSI funding that we reviewed was used for construction and equipment costs rather than for the direct provision of skills-based training.
- The Ministry had not developed methods to measure the extent to which it had achieved its objective of promoting innovation, economic growth, and job creation. Instead, the Ministry tended to assess its performance by measuring activities. For example, one of the ways the performance of the Trade Development Division was evaluated was by monitoring the number of clients assisted rather than by assessing whether any increases in export trade had actually occurred.
- A key to achieving success with the Investment Division's international marketing campaign is ensuring that adequate analysis of advertising media, target markets, and target sectors is performed before the marketing plan is developed. We found that the advertising and marketing campaign was well planned and that appropriate research was carried out to support the development of a focused marketing plan.

DETAILED AUDIT OBSERVATIONS

COMPETITIVENESS AND BUSINESS DEVELOPMENT

The Competitiveness and Business Development Division supports economic growth and job creation by fostering innovation and business development, negotiating trade agreements, promoting the removal of barriers to business, and providing businesses and entrepreneurs with information and advice relating to economic development and trade policy. The Division also manages the government's interactions with a variety of business sectors, including the aerospace, automotive, manufacturing, and retail sectors.

We reviewed the transfer payments made by the Division to the various sectors it supports and determined that payments were properly supported and appropriately classified in the Ministry's financial records.

Strategic Skills Investment Program

In addition to the activities described above, the Division also manages the Strategic Skills Investment (SSI) program, which supports training programs and courses that accelerate skills development and are offered by training providers in collaboration with businesses. The training providers involved include community colleges and private training institutions. Businesses provide financial and in-kind contributions to training providers in support of specific courses. The main focus of the SSI program is on generating the skills needed to build business competitiveness and enhance the responsiveness of Ontario's training institutions to produce graduates with skills needed by Ontario businesses.

Since 1998, when the SSI program was established, the Ministry has committed a total of $130 million to it. Since that time, the Ministry has spent $82 million on 48 training programs.

We examined SSI program files, reviewed the evaluation process, and visited four training providers. We determined that the Ministry needed to better identify and respond to skills shortages and improve its procedures and processes for evaluating program funding proposals submitted by training providers.

IDENTIFYING AND RESPONDING TO SKILLS SHORTAGES

The primary objective of the SSI program is to address current and anticipated skills needed to ensure business competitiveness in Ontario. In August 1999, the Ministry informed the Management Board of Cabinet that it would measure the SSI program's success by the number of skilled employees available for participating industry sectors. This measure would be determined by the number of students enrolled in SSI training, the number successfully completing the training, and the number obtaining employment in the related line of work.

To accomplish this, the Ministry created a database and required training institutions to annually submit data certifying the number of students enrolled in SSI-funded projects and the graduate placement rate. We reviewed this database for the three years ending March 31, 2002 and found that we could not reconcile the information generated by the database to the information provided by the training institutions. The Ministry attributed these concerns to a number of factors, including a poorly designed database, improper data definition, and incomplete submissions. The Ministry had not followed up on these concerns to ensure that the database was accurate, complete, and useful for the intended purpose of measuring the program's success in addressing strategic skills shortages.

In addition, we reviewed 29 of the 48 training projects funded by the Ministry up to March 2003. The Ministry contributed $48 million towards the total costs of these projects. We noted that 75% of the SSI funding reviewed was used for construction and equipment costs, while only 25% of the funding went to actually providing skills-based training. In addition, we noted six projects where a total of $11.8 million in ministry funding was used for construction and equipment and no funds were allocated to direct training. While some infrastructure costs are necessary, we question whether the Ministry is adequately responding to skills shortages when such a high percentage of program funds is spent on the training institutions' infrastructure instead of on the provision of training.

Recommendation

To ensure that the Strategic Skills Investment program adequately supports the development of the strategic skills necessary to enhance business competitiveness, the Ministry should:

- **resolve its database concerns to determine whether the program is adequately addressing skills shortages and whether graduates are employed in the areas for which they were trained; and**
- **review the reasonableness of the percentage of ministry funding that is used for construction and equipment costs instead of for direct training costs.**

Ministry Response

The Ministry monitors individual projects with regard to student enrolment and completion numbers as part of ensuring that each project is meeting its milestones. The Ministry agrees, however, that database development concerns have significantly hampered its capacity to provide aggregate information about projects collectively. Strategic Skills Investment (SSI) staff are continuing to work with the Ministry's information technology specialists to develop a database to readily summarize data and simplify monitoring of overall results.

The SSI program only supports one-time start-up costs, including those for new space, new equipment, and new curriculum. In light of this

recommendation, the Ministry agrees to review the reasonableness of the percentage of SSI funding that is used for construction and equipment costs instead of for direct training for each project.

EVALUATING AND PROCESSING PROPOSALS

In 1999, the government anticipated that the SSI program's contribution to strategic skills training would amount to approximately 25% of total funding. The remaining funds would be generated from private-sector partners. Although the Ministry stipulated that private-sector contributions should be significant, it did not establish clear funding guidelines or impose limits on its funding percentage for individual projects. We noted that while the Ministry's funding averaged about 25%, its contributions to individual SSI projects ranged from a low of 3% to as much as 62% of the total cost of training projects funded. In many cases, the Ministry did not meet one of the program's objectives—that of generating significant contributions from industry partners.

For contributions that were made by industry partners, the Ministry recognized both cash and cash equivalent or in-kind funding, such as donations of goods, services, labour, or equipment. In attributing a value to the contributions, consumable goods and services are to be valued at cost and are not to include any markup, and equipment is to be valued at the lesser of fair market value and the depreciated book value. We noted that the Ministry relied on applicants to value in-kind contributions. No documentation was included in the Ministry's files regarding an assessment of the reasonableness of valuation. In our visits to recipient training providers, we noted that for equipment valuations, there was little independent documentation supporting the value amounts. These amounts can be significant: at three recipients we visited, they totalled $5.7 million. In a recent audit of the SSI program, the Ministry's Internal Audit Services Branch also expressed concerns about the valuation of in-kind contributions without an independent appraisal.

Another area we reviewed was the timeliness of processing applications. Because the demand for specific skills can quickly change, it is important that the Ministry fund projects on a timely basis. For 2002, the Ministry planned to issue two calls for proposals from training providers. Normally, the Ministry's review and approval process takes from two to three months. However, we noted that applications submitted by training providers before the first proposal deadline of June 20, 2002 were not approved until February 3, 2003—more than seven months after the proposal closing date. Because of this delay, the planned call for proposals in the fall of 2002 never took place. Consequently, the Ministry did not meet its expected timetable of two calls for proposals in the 2002/03 fiscal year and was therefore unable to fund skills training to the extent originally anticipated.

Recommendation

To ensure that the Strategic Skills Investment program increases the responsiveness of training institutions to meeting business needs, the Ministry should:

- **ensure that in-kind contributions from private-sector partners are properly valued and, where amounts are significant, request independent valuations;**
- **review its share of funding for training programs in relation to the share provided by industry partners and consider developing funding-level guidelines; and**
- **ensure that training program proposals are evaluated, processed, and approved on a timely basis.**

Ministry Response

The Ministry agrees that consistent documentation of the value of in-kind contributions is important and is evaluating the best practices of Strategic Skills Investment (SSI) projects with the intent to incorporate those best practices in SSI program guidelines for use by all future proponents. In particular, the Ministry will implement a process to independently verify contributions valued at more than $100,000.

The current SSI guidelines call for industry contributions to be substantial in light of the project. While the current average for all projects puts SSI's contribution at 25%, with 75% coming from project partners, the Ministry will commit to a guideline of no more than 50% SSI contribution to any individual project.

The Ministry agrees that proposals should be processed on a timely basis. The Ministry will set a target date for completing the processing of each call for proposals.

EXPORT TRADE AND INVESTMENT

Part of the Ministry's mandate is to expand Ontario's export markets and to market Ontario as a premier investment location, attracting investors to locate and expand their operations in the province. This is accomplished mainly through the Ministry's Trade Development and Investment divisions.

Trade Development

A government agency, Ontario Exports Inc., carries out most of the responsibilities of the Trade Development Division. The agency works with Ontario companies to develop new export opportunities and assists foreign buyers to find Ontario suppliers for their purchasing requirements. In pursuing these aims, the agency leads and participates in a series of initiatives—including international trade missions, exhibitions, and seminars—and provides services in export market intelligence, consulting, and commercial advocacy to expand the international trade potential of Ontario firms. The agency's clients are mainly small- and medium-sized Ontario enterprises.

We reviewed the agency's direct operating expenditures for the 2001/02 fiscal year and noted that approximately 30% of the agency's funding for export activities was directed to initiatives in the United States. The remaining 70% of the agency's funds was directed to other international markets. The Board of Directors had instructed the agency to diversify Ontario away from dependence on the U.S. market, given that more than 90% of Ontario's exports are to the United States.

Long-term forecasts of Ontario's trading export potential indicate that the U.S. will remain the province's primary market. For instance, in October 2002, the Conference Board of Canada issued a report entitled *Canada 2010: Challenges and Choices at Home and Abroad.* The report indicates that our business linkages will be driven by our relationships within North America. It further states that "ensuring access to the U.S. market is, arguably, the single most important policy consideration…in the coming decade." In March 2002, Export Development Canada had also reported that: the United States will remain a growing and dominant destination for Canadian exports; the expansion of the European Union will make it even harder for Canadian businesses to maintain or grow their market share in Europe; exports to Japan are not expected to grow in the near future; and Canadian exports to China have been stagnant since 1995.

We also reviewed the agency's trade development activities, which include trade missions and trade shows, and noted that the agency did not evaluate the success of these activities in generating export business for Ontario companies. As a result, budget allocations to the various target markets were based more on what was allocated in previous years than on an analysis of potential costs and benefits. In addition, a November 2001 review of the corporation reported survey results whereby clients expressed postive feedback on the corporation but questioned the effectiveness of some of the corporation's trade development activities. Corporate staff were also surveyed and expressed concerns that some activities consumed a disproportionate amount of the corporation's resources and that these activities might be more suited to larger firms rather than the small- and medium-sized businesses that are the corporation's strategic focus. To better support Ontario firms in expanding their export potential, the Ministry needs to conduct a more formal evaluation of export opportunities; and to help maximize its marketing efforts, it needs to assess the costs and benefits of previous initiatives.

Investment

The Investment Division markets Ontario as an investment location to domestic and international business decision-makers. It does so by advertising, generating business investment leads, and providing investment services to potential investors. These services include providing detailed economic information about Ontario's potential as an investment location and assisting prospective investors in preparing business cases to support investment decisions. The agency's major clients are multinational corporations located in Ontario that may consider expanding and foreign-based firms considering new investments.

A key to achieving success with the Division's international marketing campaign is ensuring that adequate analysis of advertising media, target markets, and target sectors is performed before the marketing plan is developed. We determined that the advertising and marketing campaign was well planned and that appropriate research was carried out to support the development of a focused marketing plan. In addition, the leads generated from advertising and by in-market business development consultants (consultants hired by the Ministry to act as representatives in foreign target markets) were tracked and reviewed by management before these were transferred to the Division's International Investor Services section, which is responsible for attracting and retaining domestic and foreign investment.

The International Investor Services section maintains a list of potential business investment leads and related information, including company name, country of origin, nature of business operations, and the relevant business sector. However, it does not track the source of the lead—that is, whether it comes from in-market business development consultants, advertising, the federal government, municipalities, or the companies themselves. Such information would be useful to assess the effectiveness of the various investment initiatives undertaken by the Division to generate leads, as well as to improve its strategic planning and allocate resources based on the source of such leads.

Recommendation

To more effectively support the Ministry's initiatives for increasing Ontario exports and attracting investment to the province, the Ministry should:

- **perform a formal analysis of export opportunities, assess the success of the previous initiatives of Ontario Exports Inc., and conduct a comprehensive cost/benefit analysis of this agency's trade development initiatives; and**
- **track the source of business investment leads generated in the Investment Division to help improve its strategic planning and resource allocation.**

Ministry Response

The Ministry completed a program review of Ontario Exports Inc. (OEI) in 2001. As a result of the review, the corporation undertook a planning process to identify and evaluate the economic business environment, key market opportunities, client demand, other export services available, and resource implications. A three-year strategic plan for the period 2003/04 to 2005/06 was approved by the OEI Board. The plan identifies market and sector priorities and key activities for each market and sector. The plan also balances the importance of the U.S. markets with the need to make a long-term commitment

to develop other important markets. The resources have been allocated on the basis of these priorities.

As a further follow-up to the program review, OEI is currently undertaking research to develop an economic impact index to measure the economic contribution of its export advisory services. The research will focus on the impact of exports by small- and medium-sized enterprises on the provincial Gross Domestic Product, tax revenue, and employment. The final report, which is due in August 2003, will provide OEI with a tool for measuring its programs' economic impact.

The Ministry will add the source of the investment lead to its investment tracking program.

TRADE DEVELOPMENT AND FIELD SERVICES GRANTS

Grants are given to organizations for a defined purpose. Ministry managers are therefore required to obtain and review information on the performance of recipients to ensure that grants are being spent for the intended purpose and to determine whether the expected results are ultimately being achieved. Such monitoring may involve informal contact with recipients, review of records, site visits, or audits. Where recipients have failed to comply with the terms of their agreement with the province, managers are to initiate corrective action to ensure that funds are used as specified in the agreement. We reviewed the Trade Development Division's grants to the Canada Science and Technology Centre in Jiangsu, China. We also reviewed two entrepreneurship grant programs—the Summer Company program and the My Company program—that are delivered by the Corporate and Field Services Division. As outlined below, we found that the Ministry needed to improve its monitoring efforts to ensure that the objectives of grant programs are met.

In 1985, the Ministry entered into an agreement with the Canada Science and Technology Centre in Jiangsu, China, to help promote and exchange ideas with respect to economic development and trade. The agreement was that operating costs would be shared equally between the province and Jiangsu. As of March 31, 2003, ministry payments to the Centre since the inception of the agreement totalled $837,000—approximately $65,000 annually. Aside from a ministry review of invoices for its share of the operating costs, we found no evidence that the Ministry adequately monitored the recipient to ensure that funds were used as agreed. In May 1999, the Ministry's Internal Audit Services Branch issued a report of an audit carried out on the Centre. The report revealed that: most of the building space was vacant and not being used; a database of Ontario and Jiangsu companies had not been established as set out in the agreement; and an Ontario showroom set up to provide information on Ontario companies no longer existed. In 2001/02, the Ministry suspended payments to the Centre. A ministry review in March 2002 concluded that Ontario had not benefited from the 17-year relationship and was not getting value for the resources invested. At the end of our audit, in March 2003, although payments to the Centre had been suspended, the relationship with the Centre was still in place and the Ministry was still budgeting funding for the Centre.

The Summer Company program provides $3,000 grants to students to gain experience in entrepreneurship by running a small business over the summer. Grants under this program for the 2002/03 fiscal year totalled $654,000. The Ministry monitors the progress of participants over the summer and requires them to complete a final report on their experience. However, there is no formal assessment of how successful the program has been in meeting the Ministry's objectives of providing the tools and experiences necessary to enhance the success of small business start-ups by young entrepreneurs and of promoting entrepreneurship as a viable career option.

The My Company program provides guarantees of up to 85% for loans of $15,000 or less to young entrepreneurs starting their own business. This is a partnership arrangement with one of the chartered banks. For the 2002/03 fiscal year, the Ministry guaranteed loans issued by the bank totalling over $400,000. The program guidelines indicate that the loan may not be used to finance existing debt, purchase an existing business and assets, operate an extension of an existing business, or purchase a major item, such as a vehicle or computer. The bank is responsible for selecting, approving, and awarding loans, as well as monitoring the applicants. While the Ministry receives quarterly reports from the bank listing the outstanding loan amounts and the status of each loan, we noted that it did not verify nor receive assurance from the bank that the loans were used for the intended purpose.

Recommendation

To help meet program objectives for grant programs, the Ministry should ensure that proper systems for monitoring recipients are in place and that the success of each program is formally evaluated and taken into consideration in future funding decisions.

Ministry Response

The Ministry agrees that proper monitoring systems should be in place to support the evaluation of grant programs.

Ontario Exports Inc. has now completed an assessment of the $65,000 grant to the Canada Science and Technology Centre in Jiangsu, China, and determined that there are more effective activities to promote exports to China. The Ministry will continue to work with the Centre to promote Ontario-Jiangsu exports but will no longer provide direct support to the Centre. The grant line will be eliminated from the Ministry's 2004/05 expenditure estimates.

Summer Company and My Company are initiatives under a new program, the Youth Entrepreneurship Program, which was established in 2001 to promote

entrepreneurship among Ontario's youth. The Ministry is implementing a process for tracking the program's results, including monitoring the recipients. The program was awarded a Gold Public Sector Quality Award and is continually working to improve its effectiveness.

MEASUREMENT OF AND REPORTING ON PROGRAM EFFECTIVENESS

To demonstrate that its programs and policies for business and economic development are effective in accomplishing its mandate of fostering an Ontario with competitive businesses and a prosperous economy, the Ministry needs mechanisms to track the results of its initiatives and to take corrective action where objectives are not met.

Prior to 1995, the Ministry operated many direct business-assistance programs that provided grants, financing, loans, and loan guarantees—primarily through the Ontario Development Corporation. Since then, the Ministry's operational focus has been less on direct financial assistance and more on functions like advising companies, helping them access the resources needed to compete, marketing the province as an investment location, and helping Ontario exporters find new customers in world markets. While it can be more difficult to assess the impact of such activities, the Ministry is nevertheless required to measure and report annually through the business planning and allocation process on its effectiveness in achieving its mandate.

Performance measures should not report on ministry activities; they should show the likely economic results of those activities. Many of the Ministry's current measures are based on or defined as activities—for instance, the number of projects approved and the number of clients and companies assisted. Such measures describe activities rather than outcomes or economic results. For a performance measure to be relevant, it must show the direct relationship between the activity and the resulting outcome. For example, one of the Ministry's performance measures for its trade program was the number of clients assisted to maintain their export markets and expand internationally. While this may measure the level of ministry activity in this area, it does not measure success—that is, whether export trade actually increased as a direct result of ministry assistance. As another example, the key performance measure for the Strategic Skills Investment program was the level of employer satisfaction with the program. While the program received a 90% satisfaction rating, this does not measure the program's objective, which is to help develop the skills necessary for business competitiveness. This objective directly relates to the Ministry's overall mandate of fostering competitive businesses. The Ministry did not report on whether this objective was accomplished.

The Ministry noted that measuring program results for economic development and trade can be difficult and may not always be within the direct control of its programs. Other parties can influence results, including the federal government and multinational companies, as can other factors, such as domestic and world economic conditions, trade barriers, and international events. Nevertheless, Ministry staff acknowledged that even though specialized assessments may be required, more appropriate performance measures were needed to evaluate and report on the effectiveness of its business and economic development activities.

Recommendation

To measure and report on the effectiveness of its business and economic development activities, the Ministry should develop performance measures that demonstrate how program initiatives contribute to the fostering of competitive businesses and a prosperous economy.

Ministry Response

The Ministry tracks the performance of its business and economic development activities. For example, extensive tracking is done on the effectiveness of the investment marketing and servicing activities.

The Ministry is working to improve the measurement of the impact of these activities. For example, Ontario Exports Inc. is currently undertaking research to develop an economic impact index to measure the economic contribution of its export advisory services. The Ministry also periodically surveys other jurisdictions for their performance measures for similar programs. The Ministry also works with central agencies on the development of performance measures for new or revised programs.

The Ministry is committed to measuring the contribution of its programs and will continue to refine and improve performance measures for its business and economic development activities.

TRAVEL EXPENDITURES

Travel expenditures that are incurred by employees on ministry business and that are eligible for reimbursement relate to such areas as transportation, accommodation, car rentals, meals, and hospitality expenses. Management Board of Cabinet directives outline the general rules all ministries and government employees must follow to minimize the cost of travel expenses. During the two years ending March 31, 2003, the Ministry incurred over $3.5 million for travel expenses. We reviewed the travel claims process for these two years and noted numerous examples where employees disregarded Management Board of Cabinet directives and managers did not adequately scrutinize travel expenses.

When incurring travel expenses for such items as hotels and personal meals, employees are required to follow Management Board of Cabinet directives. However, for meal allowances, Management Board of Cabinet directives are silent on acceptable rates outside Ontario.

Nevertheless, the directives require that persons approving travel claims ensure that meal costs are reasonable for the locations in which they are incurred. As a proxy for reasonable meal rates in foreign jurisdictions, we compared the federal government's meal allowances with a sample of ministry claims and noted more than 100 cases where employees claimed personal meal costs in excess of these rates, and the excess averaged 50% more than the federal rates.

Before approving travel expense claims, managers are required to scrutinize travel expense claims to ensure that all expenses claimed are necessary, reasonable, and supported by appropriate receipts. However, we found that managers did not adequately scrutinize travel expense claims. We noted several instances where employees had been reimbursed for expenses without receipts or with receipts that were inappropriate, such as photocopied receipts and credit-card statements instead of original receipts. In such cases, there is a risk that ineligible expenses could be reimbursed or duplicate payments could be made. In fact, we noted two duplicate payments totalling approximately $1,200 where ministry staff were reimbursed for expenses using photocopied receipts. We informed the Ministry of these two instances and the duplicate payments were subsequently recovered. In addition, we found instances where managers approved the reimbursement of costs that were questionable business expenses, such as the renewal fee for a personal driver's licence and payment for a spouse's admission to an air show.

Employees extending hospitality to business clients and contacts are required to submit receipts detailing the amounts paid for food, beverages, and other items, as well as to indicate the persons in attendance. This is to ensure that only business clients and persons who are not employed by the government are extended hospitality. We noted over 200 cases, totalling over $48,000, where hospitality costs were claimed without detailed receipts. Supporting documentation consisted primarily of credit-card stubs and hotel bills, which show only the total amounts paid without any detail.

Recommendation

To ensure that all travel services are acquired economically, that Ontario government rules are followed, and that employees are reimbursed for only legitimate business expenditures, the Ministry should:

- **reiterate to employees the necessity of following government travel policies and advise staff that any exceptions to the rules will not be reimbursed; and**
- **reimburse only those travel claims that are accompanied by proper supporting documentation.**

Ministry Response

The Ministry agrees that travel services should be acquired economically and has endeavoured to contain the growth of travel costs over the past four years. In light of these audit findings, the Ministry will review its travel policies as they

relate to international travel. The Ministry will remind all staff of the importance of following Ministry travel policies, including the need for proper documentation to support their travel claims. The Ministry will also hold mandatory information sessions for all managers to remind them of their responsibility to closely review expense claims submitted by their staff to ensure adherence to travel policies.

MANAGEMENT OF CONSULTING SERVICES

During the three years ending March 31, 2003, the Ministry paid over $22 million for consulting services, primarily for management and technical projects. In acquiring consulting services, ministries must comply with Management Board of Cabinet directives that set out the key principles for the decisions made in planning, acquiring, and managing consulting services. We examined a sample of consulting assignments and found that the Ministry needed to improve its procedures to ensure the economical acquisition and proper management of consulting services, as detailed below.

Consultants are to be hired using a competitive selection process and are to be treated in a fair and equitable manner. Ministries must also retain appropriate documentation for each assignment. We noted instances where the Ministry did not maintain an open and fair process for acquiring consulting services or retain appropriate documentation. For example:

- One consultant the Ministry hired was selected because it was the lowest bidder at $50,000. Following the bid, the Ministry had some questions about the proposal and asked the consultant to provide additional information. As a result, the cost increased to $95,000 and the terms of reference in the request for proposal were different from the final terms agreed to in the contract. However, the Ministry did not give the other bidders the opportunity to resubmit their bids, which may have been lower, based on the final terms of reference.
- In another case, the Ministry hired a consultant for $382,000. Although the Ministry indicated that bids were received from three other consultants, it could not provide us with any documentation to demonstrate that a competitive process was followed.

Consulting contracts and payments are required to be properly monitored and controlled, and any increases in the ceiling prices must be justified, formally agreed to, and properly approved. However, we noted examples of payments made to consultants that exceeded the ceiling prices of the contracts by $20,000 to $116,000. These represented increases of 30% to 100% of the original cost. For these contracts, the terms and conditions of the assignments remained unchanged and we found no documentation justifying the increase in ceiling prices. We also found no evidence of prior approvals for the increases from the Deputy Minister or designate, as required by Management Board of Cabinet directives.

For every consulting assignment, a written agreement between the Ministry and the consultant must be prepared as soon as possible, preferably before the assignment begins.

From the sample of files we examined, we noted that one consultant provided services four months prior to signing a contract with the Ministry, and a recent audit by the Ministry's Internal Audit Services Branch also detected a number of similar exceptions. In not having a signed agreement in place before an assignment is undertaken, the Ministry runs the risk of misunderstandings with the consultant regarding their respective responsibilities and the scope of the work, which may impact on the successful completion of the assignment at the originally agreed-upon price.

When consultants complete their assignment, the Ministry is required to prepare a written evaluation that includes an assessment of: the quality of the work; whether value for money was obtained; and the suitability of the consultant for future assignments. However, we found that the Ministry had not prepared the required written evaluations for any of the consulting assignments we reviewed. Since the four ministry divisions we audited independently hire consultants, such evaluations would help other proposal review teams in the other divisions by providing information on a consultant's past performance.

Recommendation

To achieve value for money when using consulting services, the Ministry should ensure that:

- **consultants are hired through a competitive selection process and are treated fairly and equitably and any exceptions are adequately justified, documented, and approved;**
- **contracts and payments are properly monitored and controlled, and any increases in the ceiling price are justified, formally agreed to in advance, and properly approved;**
- **contracts outlining the key deliverables, costs, and other significant project details are signed before consultants begin their assignments; and**
- **formal evaluations are prepared for consultants when their assignments are completed, and these evaluations are made available to other divisions for future evaluations of consulting proposals.**

Ministry Response

The Ministry agrees that there should be value for money for consulting services and had taken steps prior to this review to ensure that consulting services are being acquired appropriately and managed effectively.

In 2001/02, the Ministry undertook an internal audit of consulting services. That internal audit had noted many of the issues related to consulting services identified in this report. The Ministry is implementing significant improvements to address the findings of this report and the internal audit report. These improvements include updated policies and procedures, improved communications of ministry policies, increased controls for acquisition of consulting services, enhanced reporting, and customized training for staff.

With regard to contract management, the Ministry is working with the Shared Services Bureau to improve operational efficiency and compliance with Management Board directives.

ONTARIO INVESTMENT SERVICE WEB SITE

The Ministry's Ontario Investment Service (OIS), part of the Ministry's Investment Division, acts as a single source of customized information, investment marketing materials, and other services to Ontario businesses considering expansion and to potential investors in Ontario. It operates a Web site that provides information of interest to potential investors, including: municipal profiles and industrial property information designed to assist investors with site selection; data on the availability of labour skills and other economic data; and comparative investment information on Ontario and competing jurisdictions.

To carry out its responsibilities, the OIS purchased a stand-alone computer server to host its Web site. A consulting firm was hired under two successive contracts, which totalled approximately $960,000 and covered the period July 2001 to September 2003. Under the direction of OIS, the firm's consultants were to provide day-to-day operational services related to project leadership and management of the Web site, including site design, database management, programming, page layout, editing, and other technical support. We reviewed the consultants' job descriptions and the list of their projects for the 2002/03 fiscal year and noted that most of the work they carried out was updating and maintaining aspects of the Web site. Of the 20 tasks assigned during the year, only two involved developing new sections for the Web site. The cost of having consultants carry out these tasks was significantly more than if the functions had been performed by two or three comparable Web co-ordinators and Web design staff at the Ministry. Salaries of similar staff positions in the Ministry averaged $66,000. At this rate, we estimate that hiring consultants instead of having ministry staff manage and maintain the OIS Web site may have cost the Ministry as much as $500,000 more.

Recommendation

To ensure that the Ministry's requirements for the Ontario Investments Service Web site are met in the most economical manner, the Ministry should consider the costs and benefits of having the functions performed internally.

Ministry Response

The Ministry agrees and is taking action to ensure that the Ontario Investment Service (OIS) Web site is delivered in an economical manner.

Until 2001, maintaining the OIS Web site through individual fee-for-services contracts was very cost effective. As a result of the move from individual

fee-for-services contracts to a full-service contract, there has been a significant increase in costs over the past two years.

The Ministry has identified this as an issue to be reviewed as part of the program evaluation currently underway for the Investment Program. The program evaluation will consider available options for Web site maintenance and make recommendations on the most cost-effective option.

MINISTRY OF ENTERPRISE, OPPORTUNITY AND INNOVATION

3.07–Science and Technology

BACKGROUND

The mandate of the Ministry of Enterprise, Opportunity and Innovation is to foster competitive businesses and a prosperous economy in Ontario. Through this mandate, the Ministry promotes innovation, economic growth, and job creation. The Ministry's science and technology goals are to provide leadership for and co-ordination of related programs and activities government-wide and to develop strategies that foster a culture of innovation in the Ontario economy.

Between April 1, 1998 and March 31, 2003, the Ministry funded several major science and technology programs and spent $1.3 billion. The government announced total program commitments (i.e., expected total funding) of $4.3 billion, as shown in the following table.

Ministry Science and Technology Commitments and Funding, April 1, 1998 to March 31, 2003

Science and Technology Program	Total Ministry Commitments ($ million)	Total Ministry Funding ($ million)
Ontario Innovation Trust	1,050.0	750.0*
Ontario Research and Development Challenge Fund	1,250.0	182.6
Ontario Centres of Excellence	342.5	161.5
Ontario Research Performance Fund	251.3	91.3
Premier's Research Excellence Awards	85.0	45.0
Telecommunications Access Partnerships	32.5	26.0
Ontario Research and Innovation Optical Network	32.3	17.7
Biotech Commercialization Centres Fund	20.0	8.5
Medical and Related Sciences	20.0	7.0
Interactive Digital Media Small Business Growth	10.0	6.9
Ontario Cancer Research Network	100.0	6.1
Connect Ontario	85.0	3.1
Cancer Research Institute of Ontario	1,000.0	0.0
Biotechnology Cluster Innovation Program	30.0	0.0
Premier's Platinum Medal for Research Excellence	10.0	0.0
Other Transfer Payments	21.7	20.4
Total Science and Technology Programs	**4,340.3**	**1,326.1**

* The Ministry had paid the Ontario Innovation Trust $750 million as of March 31, 2003. As of March 31, 2002, the date of the most recent information available, the Trust had disbursed $239.6 million to grant recipients and had more than $500 million on hand.

Source of data: Funding Pronouncements and Public Accounts of Ontario

There is no specific legislation related to the Ministry's science and technology programs, as most programs have been established pursuant to approved Cabinet submissions. Each program has specific objectives and provides grants to institutions such as universities, colleges, hospitals, and other not-for-profit organizations to carry out scientific research and technology development. Furthermore, most programs require the research institution to obtain private-sector financial support in addition to program funding, and several programs use advisory boards and panels to review research proposals and recommend specific projects for funding.

The Ministry's Science and Technology Division has approximately 50 staff and, in the 2002/03 fiscal year, spent $7.8 million on direct operating expenses. These expenses include payments to the Innovation Institute of Ontario, a not-for-profit corporation that provides administrative services for a number of ministry programs.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit of the science and technology programs were to assess whether the Ministry had adequate procedures in place to:

- ensure compliance with Management Board of Cabinet directives, contractual agreements, and ministry policies;
- ensure that resources were managed with due regard for economy and efficiency; and
- measure and report on the ministry's effectiveness in fulfilling its mandate and identifying areas where corrective actions are required.

The criteria used to conclude on our audit objectives were discussed with and agreed to by ministry management and relate to systems, policies, and procedures that the Ministry should have in place.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The scope of our audit, which was substantially completed by March 2003, included an examination of six science and technology programs that together accounted for 90% of the Ministry's science and technology expenditures. We also assessed selected aspects of the Ministry's other science and technology programs. Our audit included discussions with relevant staff, as well as a review and analysis of documentation that was made available to us at the Ministry and at the Innovation Institute of Ontario. Our audit also included a review of the activities of the Ministry's Internal Audit Services Branch. We reviewed the Branch's recent reports and incorporated any relevant concerns into our audit work.

ACCESS TO INFORMATION

We did not receive adequate access to all the information we requested from the Ministry—information that the Ministry must provide to us under section 10 of the *Audit Act*. For example, on October 23, 2002, we requested submissions to Management Board of Cabinet for a number of ministry programs. These submissions outline such program parameters as who is eligible for funding, funding criteria, and grant limits. Such information was vital to the performance of our audit. Also, full access to other ministry documentation was originally denied due to the fact that such documents were based on these submissions. Partial submissions were provided almost three months after we requested the information. Subsequently, we were allowed to read those portions of the documents not previously provided but were not given unfettered and timely access to all the documents we needed to complete our audit work. Such limitations on our access to information prevented us from being able to conclude on our audit objectives and complete this audit in a timely manner.

The Ministry is of the opinion that it provided the information in accordance with government protocols. However, we continually expressed the view that we were not provided with all the information needed to satisfactorily complete our audit work.

OVERALL AUDIT CONCLUSIONS

Given the limitations on our access to information as discussed above, we cannot provide reasonable assurance that our audit identified all matters that should be brought to the attention of the Legislative Assembly. However, our review of the Ministry's science and technology spending of $1.3 billion between April 1, 1998 and March 31, 2003—primarily for research grants—revealed a number of significant concerns. A major concern was that the Ministry had committed to spending $4.3 billion without an overall strategic plan to set parameters and consistent policies for existing programs or to guide the development of new programs to meet the objectives of promoting innovation, economic growth, and job creation. Other significant concerns and deficiencies in the Ministry's practices and procedures included the following:

- Contrary to government directives on alternative service delivery, the Ontario Innovation Trust was set up through a trust agreement between the former Ministry of Energy, Science and Technology and a trust corporation without a business case justifying its creation. As noted in our previous annual reports (1999–2002), the Ministry did not implement the mandatory accountability controls to ensure that more than $1 billion in public funding, provided or committed to the Trust, is being spent for the purposes intended. The Ministry receives virtually no information from the Trust and does not have the required monitoring processes in place to ensure compliance with the Trust agreement. Therefore, neither the Legislature nor the Ministry have any control over spending by the Trust.

- The contract between the Ministry and the Innovation Institute of Ontario (IIO) regarding the administration of the Ontario Research and Development Challenge Fund states that no documentation is to be destroyed without ministry approval. But the IIO did not retain panel reviewers' assessments of research proposals and often disposed of these assessments without the Ministry's consent. Therefore, management could not demonstrate that appropriate practices were followed in the decisions made to fund specific projects.

- The Division often did not have the supporting documentation that was necessary to properly calculate Ontario Research Performance Fund grants. We obtained documentation from other sources for a sample of 2001/02 recipients, recalculated the grants, and found that one institution was underpaid by $277,000 and another was overpaid by $147,000. We notified the Ministry of these errors, and the errors were subsequently corrected.

- We reviewed in detail the summary score sheets for one round of competition for the Premier's Research Excellence Awards and found that the marks on the reviewers' individual score sheets did not match the marks on the Ministry's summary score sheet, and the marks on the summary score sheet did not match the summary of scores on the short list of recipients recommended for funding. Such findings limit the Ministry's ability to demonstrate the fairness and transparency of the selection process.

- The Ministry does not have adequate procedures in place to monitor potential conflicts of interest. For example, a review of advisory board minutes revealed occasions on which a conflict of interest should have been declared, but there was no indication in the minutes that a conflict had been declared.

- In July 2000, the Ministry single-sourced the administration of the Ontario Research and Development Challenge Fund to the Innovation Institute of Ontario, a subsidiary of the Ontario Innovation Trust. According to ministry documentation, a request for proposals (RFP) was not issued because once an RFP is out, anyone who is eligible must be treated fairly in the process, and problems could arise if a bidder was not dealt with fairly after an investment of time and resources in the preparation of a proposal. Single-sourcing, especially for such a reason, contradicts the basic principles of government procurement.

- Although the Ministry has spent hundreds of millions of dollars on science and technology research, it has made little effort to ensure that intellectual property rights arising from funded research ultimately benefit the province.

- The Ministry did not have a process in place for measuring and reporting on the achievement of its overall goals of promoting innovation, economic growth, and job creation. The Ministry measured its performance in terms of growth in the value of non-government-sponsored research over the next five years. This measure is a future-oriented target or benchmark and does not reflect the ongoing impact of the Ministry's expenditures to date.

DETAILED AUDIT OBSERVATIONS

COMPLIANCE WITH GOVERNMENT AND MINISTRY POLICIES

Governance and Accountability

The Management Board of Cabinet directive on Transfer Payment Accountability requires the Ministry to establish an effective framework for the prudent management of provincial transfer-payment funds. The mandatory requirements include defining expectations, signing agreements, ongoing monitoring, reporting periodically, and taking corrective action when necessary. We reviewed the governance and accountability processes in place for the Ontario Innovation Trust and for the Ontario Research and Development Challenge Fund.

ONTARIO INNOVATION TRUST—GOVERNANCE AND ACCOUNTABILITY

The Ontario Innovation Trust (Trust) was created in March 1999 to help support the capital costs of research performed in Ontario universities, community colleges, hospitals, and research institutions. The Trust was intended to match federal grants from the Canada Foundation for Innovation and to complement the Ontario Research and Development Challenge Fund, which would fund operating costs for research. A governing board was appointed to oversee the Trust, and in 2000, a subsidiary, the Innovation Institute of Ontario, was created to administer Trust grants to research institutions. The Ministry has committed to pay the Trust more than $1 billion, and as of March 31, 2003, had paid $750 million. The Trust had more than $500 million on hand as of March 31, 2002—the date of the most recent information available.

The Trust was created by an agreement between the former Minister of Energy, Science and Technology and a private-sector corporation that was designated as the Trustee. But contrary to government directives on alternative service delivery, we were informed that there was no submission to Cabinet and no business case to justify the Trust's creation. Also, as noted in our previous annual reports (1999–2002), contrary to the Management Board of Cabinet directive on Transfer Payment Accountability, the Ministry did not enter into an agreement with the Trust to define provincial expectations or outline how the Trust would be held accountable for its spending of public funds.

The Transfer Payment Accountability directive specifies that the Ministry must routinely obtain and review information on the status of recipient eligibility and performance and that the Ministry is responsible for identifying non-compliance with agreements and initiating corrective action. However, we observed that the Ministry receives virtually no information from the Trust and does not have the required monitoring process in place to ensure compliance with the trust agreement. For instance, the trust agreement specifies maximum amounts that can be provided for an eligible project, but ministry management cannot monitor whether eligible projects have been split into several components to circumvent these funding limits. Also, without a process for verifying eligibility, the Ministry has no assurance that the Trust is spending public funds in compliance with the trust agreement.

The Trust is not required to report to the Ministry or through the Minister to the Legislature. While the Trust has voluntarily posted selected information on its public Web site, the Trust's first annual report was not released until three years after the Trust's creation. In addition, although ministry staff indicated that the Trust's Board had hired a consultant to report on whether the Trust implemented best practices in accountability, the Ministry did not know whether the review actually took place or whether a report was ever issued. We also requested, but did not receive, the consultant's report.

Having representation on the Trust's Board could help the Ministry monitor the Trust's activities. The trust agreement states that of the seven members of the Trust's Board, three shall be appointed by the Lieutenant Governor in Council on the Minister's recommendation. Although the trust agreement stipulates that a member whose term has expired shall remain in office until a successor is appointed, the wording used in the Lieutenant Governor's appointments states that these appointments are "not to exceed" the time period stipulated. Yet one government appointment expired in May 2001 and another in May 2002, and the government has not yet appointed replacements. In addition, none of the three government employees appointed to the Board by the Lieutenant Governor were ministry staff. We are concerned that even this basic oversight provision to monitor the planned spending of $1 billion in public funds is not being achieved.

In summary, neither the Legislature nor the Ministry has control over the spending of taxpayers' funds by the Trust.

Recommendation

To ensure the effective oversight of the Ontario Innovation Trust's spending of potentially more than $1 billion in public funds, the Ministry should:

- **negotiate an agreement with the Trust to establish proper governance and accountability arrangements;**
- **implement procedures for routinely obtaining and reviewing information on the status of recipient eligibility and ongoing results;**
- **implement procedures for identifying areas of non-compliance and initiating corrective action where required; and**
- **ensure that all government Board appointments are up to date.**

Ministry Response

The Ministry will make its best efforts to ensure accountability. However, it should be noted that the Ministry does not have the authority to impose an agreement on the Ontario Innovation Trust (Trust), although the Ministry could take steps to negotiate an agreement as suggested.

In order to try and ensure that the Trust is in compliance with the accountability framework established in the March 31, 1999 Trust Agreement, the Ministry will:

- ***formally request a quarterly update from the Trust to confirm recipient eligibility and results of investments beginning in the fourth quarter of the 2003/04 fiscal year;***
- ***work with the Trust to put in place process tools to identify and address any non-compliance matters; and***
- ***ensure that the government appointments are brought up to date as quickly as possible, recognizing that they are Order-in-Council appointments.***

ONTARIO RESEARCH AND DEVELOPMENT CHALLENGE FUND—GOVERNANCE AND ACCOUNTABILITY

In 1997, the Ontario Research and Development Challenge Fund (Challenge Fund) was established as a 10-year program to promote research of interest to the private sector and encourage collaboration between research institutions and the private sector. The Challenge Fund was also designed to improve Ontario's ability to attract and keep researchers in the province and to help Ontario universities compete for federal research funding. As of March 2003, the Minister had approved more than 100 Challenge Fund projects, for a total ministry commitment of $435 million. We were advised that the sponsoring research institutions and private-sector organizations had made additional funding commitments of $437 million and $510 million, respectively.

At the Challenge Fund's inception in 1997, a Challenge Fund Board was created as an independent body to provide advice and recommendations to the Ontario government on individual research and development proposals. The Ontario government was represented on that Board by the Ministries of Energy, Science and Technology; Economic Development and Trade; Training, Colleges and Universities; Agriculture, Food and Rural Affairs; and Finance. A 1997 submission to Cabinet established the former Ministry of Economic Development, Trade and Tourism as the lead ministry responsible for administering the Challenge Fund and being accountable to the Legislature. In August 1999, a Memorandum of Understanding (MOU) between the Ministries and the Board outlined their respective roles and responsibilities. This MOU was to be formally reviewed every two years.

The first MOU review should have been completed in August 2001 but had not been done as of March 2003. Significant changes have occurred in the Challenge Fund that would warrant updating the MOU. For example, a program objective to match federal grants for capital infrastructure was dropped with the creation of the Ontario Innovation Trust. Also, since November 2000, the monitoring of grants and other responsibilities of the Challenge Fund have been delegated to the Innovation Institute of Ontario, a subsidiary of the Trust.

The MOU permits the Challenge Fund Board's Chair to appoint special advisory committees to assist in evaluating proposals for research funding. To date, a non-medical panel and a medical panel have been established to assess proposals and provide summaries to the Board for decision-making. But there are no terms of reference outlining key features of such panels, including the panels' role, who can serve on them, the length of members' terms, and the panels' policies, procedures, and processes. Furthermore, the MOU does not establish performance targets or a lead ministry for the program.

Recommendation

To ensure that the required accountability mechanisms are in place for the management of the Ontario Research and Development Challenge Fund (Challenge Fund), the Ministry should:

- **update the Memorandum of Understanding between the Challenge Fund and the ministries to outline the responsibilities of the Challenge Fund Board and special advisory committees and to reflect current program objectives and suitable performance measures; and**
- **ensure that primary and direct oversight responsibility for the Challenge Fund rests with a lead ministry.**

Ministry Response

The Ministry agrees that it must update the Memorandum of Understanding (MOU) to reflect the changes to the Ontario Research and Development Challenge Fund since the program was established. The update will be completed by December 31, 2003, and will include: the role of the Challenge Fund Board and ongoing special advisory committees; program objectives; and performance measures. The changes to the MOU will also incorporate the best-practice advice that the Ministry has recently received from an International Review Panel and will reflect the Ministry's role as lead ministry.

Project Selection

The Ministry is ultimately responsible for ensuring that the selection of potential research and development projects meets the program's specific objectives and specified eligibility requirements. To ensure that funds are provided for the most deserving proposals, a fair, transparent selection process must be in place. We examined the selection process and supporting documentation for the Ontario Research and Development Challenge Fund, the Ontario Research Performance Fund, the Premier's Research Excellence Awards, and the Premier's Platinum Medal for Research Excellence.

ONTARIO RESEARCH AND DEVELOPMENT CHALLENGE FUND—PROJECT SELECTION

Since November 2000, the Innovation Institute of Ontario (IIO) has administered the Ontario Research and Development Challenge Fund (Challenge Fund), which was formerly administered by the Ministry. The IIO's responsibility is to review and analyze proposals for Challenge Fund grants to ensure that the documentation submitted is complete and that proposals meet program eligibility criteria. The IIO then is to prepare project summaries for use by the Challenge Fund Board. In conjunction with the Board, the IIO is expected to determine which proposals require expert assessments and the type of panel review required. Panels are then to be set up to review proposals, and the IIO is to summarize these panels' recommendations and forward the summaries to the Board for further consideration. The Board's recommendations are then to be forwarded to the five Ministers for final approval.

We reviewed the selection process and found that procedures were not in place to ensure that only eligible projects were selected and that the process was fair and transparent. Some of our key concerns are as follows:

- The contract between the Ministry and the IIO states that no documentation is to be destroyed without the Ministry's prior written approval. Documentation, such as evaluations by individual panel members, is to be retained to help ensure that a fair and transparent evaluation process was followed, that conflict-of-interest guidelines were observed, and that the projects recommended for approval were ranked higher than those recommended for rejection. But the IIO did not routinely keep on file panel reviewers' individual assessments of proposals, retaining only the summaries. We found no evidence that the Ministry had given written consent to dispose of these documents. As a result, the IIO could not demonstrate that panel members' evaluations were consistent with the summary recommendations prepared by the IIO and presented to the Board.
- To stimulate job creation and economic growth, Challenge Fund policy requires that a third of any project's costs be received from or committed by private-sector partners. These commitments cannot be made more than six months before the deadline for submitting an application. Contributions committed before that time are not eligible because they do not represent newly created partnerships or incremental funding. We found that the Ministry and the IIO did not always ensure compliance with these eligibility requirements. For example, an applicant applying for a grant with a private-sector partner was awarded $9.3 million from the Challenge Fund. Contrary to Fund policy, the project had started and the private-sector partner had made commitments to the project a year before applying for the grant. This project did not create new partnerships and did not generate incremental or new private-sector funding.
- The Memorandum of Understanding (MOU) between the Challenge Fund Board and the five ministers responsible for the program requires the Board to provide written recommendations of each proposal to be considered to all ministers who are a party to the agreement. The Ministry requires the Challenge Fund Board to provide written recommendations regarding each proposal to the five ministers within 70 days of the application deadline. We reviewed the timeliness of the process for the last several competitions and found that the process was not completed in a timely manner. The IIO could not provide evidence of when recommendations were submitted to the Minister, and there are no guidelines for the timeliness of the Minister's approval. Overall, the time taken from the application deadline to ministerial approval ranged from 89 to 273 days. In addition, the Ministry could not provide any evidence that written recommendations were provided to, and approval was received from, any of the other ministers who were party to the agreement, as required by the MOU.

Recommendation

To ensure that the Ontario Research and Development Challenge Fund selection process is timely, fair, and transparent, and that adequate procedures are in place to assess project eligibility, the Ministry should:

- **require the Innovation Institute of Ontario to retain all relevant documentation;**
- **implement procedures for periodically verifying eligibility and ensuring that any exceptions to program eligibility criteria are well supported;**
- **ensure that all applicable ministers are apprised of the Board's recommendations or, if appropriate, obtain a delegation of authority for the Minister of Enterprise, Opportunity and Innovation to approve projects for funding on behalf of all ministers who are party to the agreement; and**
- **ensure that applications for research funding are reviewed within the specified time frame and that recommendations are made to the required ministers on a timely basis.**

Ministry Response

The Ministry will work with the Innovation Institute of Ontario (IIO) to ensure appropriate procedures are being implemented for retaining documents, verifying eligibility, and supporting any exceptions. The service agreement with the IIO requires the IIO to retain all relevant documentation, and the Ministry will strictly enforce this requirement.

The Ministry agrees that there are administrative efficiencies to be achieved with delegated authority to the Minister of Enterprise, Opportunity and Innovation. The Ministry will pursue this approach with its partner ministries by December 31, 2003.

The Ministry is committed to finding ways to ensure that applications are reviewed in a timely manner and that recommendations are made on a timely basis.

ONTARIO RESEARCH PERFORMANCE FUND—PROJECT SELECTION

The Ontario Research Performance Fund (Performance Fund) was introduced in the *2000 Ontario Budget* to provide overhead funding for institutions conducting Ontario-government-sponsored research. For eligible research projects, the Performance Fund contributes to overhead costs (such as heat and hydro) at a rate calculated at 40% of the project's direct costs. The rate is reduced when overhead support is received from other ministries. During the 2001/02 fiscal year, the Performance Fund made payments for 218 research projects. In its first two years, the Performance Fund was to spend $30 million annually. If the total overhead funding for all eligible recipients exceeded this amount, each recipient's funding was to be reduced to ensure that the total final payments for the year did not exceed $30 million.

A July 2000 Management Board submission outlined the Performance Fund's administrative framework and noted that those institutions designated as eligible research institutions in a provincial tax bulletin would be deemed eligible for program funding. Institutions not listed in that bulletin could apply to the Ministry for an assessment of their eligibility status. However, we found that the Ministry did not have documentation to demonstrate the process or rationale used to approve the eligibility of 41 new recipients that were not listed in the tax bulletin. In the 2001/02 fiscal year, the Performance Fund paid these recipients $8.7 million.

Eligibility is also contingent on a signed confirmation letter from the lead ministry that provided the initial research funding. This letter confirms the amount of the initial grant for direct costs. This amount is used to calculate the Performance Fund's overhead grant. Since confirmation letters were not on file for a number of projects, the Ministry often did not have sufficient documented evidence regarding the amounts used to calculate the Performance Fund grants. We recalculated the grants for a sample of 2001/02 recipients and found that one institution had been underpaid by $277,000 and another had been overpaid by $147,000. We notified the Ministry of these errors, which were subsequently corrected.

Performance Fund grants are provided to reimburse overhead costs for the preceding year. Under the terms of the contract between the institutions and the Ministry, institutions must submit a performance report outlining the use of grant monies in the year in which the grant was received. However, because the funds are to be used to reimburse the previous year's costs, not the current year's, which could be significantly different than the prior year's overhead costs, this reporting requirement does not meet its intended purpose.

Since there is no deadline for eligible recipients to submit funding requests, submissions can be received after all of the program's annual funding has been paid out. In 2000/01 and 2001/02, late submissions totalling $590,000 and $116,000, respectively, were paid in the subsequent fiscal years. Since no adjustments were made to the amounts paid to other recipients, these payments resulted in overpayments or payments in excess of the total annual program funding for that particular year. At the time of our audit, program payments for the 2002/03 fiscal year, including any adjustments or overpayments, had not been finalized.

Recommendation

To help ensure that recipients of Ontario Research Performance Fund grants meet eligibility criteria and are paid the proper amounts, the Ministry should:

- **ensure that all new recipients meet program eligibility requirements;**
- **ensure that signed confirmation letters are on file verifying the amount of grants provided by other ministries to eligible recipients;**
- **implement procedures for verifying that grant amounts are calculated accurately; and**

- **establish a deadline for submissions and for finalizing annual payments under the program.**

Ministry Response

The Ministry agrees and is in the process of updating its procedures for the Ontario Research Performance Fund to address these issues. Specifically:

- ***The Ministry has put in place an administrative practice to require lead ministries to be accountable for ensuring that all new recipients meet program eligibility requirements.***
- ***Copies of all signed confirmation letters verifying the amounts of grants provided by other ministries will be kept on file at the Ministry in a new database tracking-and-management system that is currently being implemented.***
- ***The Ministry has implemented new procedures for verifying that grant amounts are calculated accurately.***
- ***The Science and Technology Division will undertake an internal review of its submission and payment processing system prior to the end of the 2003/04 fiscal year.***

PREMIER'S RESEARCH EXCELLENCE AWARDS—PROJECT SELECTION

The Premier's Research Excellence Awards (PREA) program was established in 1998 to attract, develop, and keep talented graduate students and researchers in Ontario. The awards are made on a competitive basis to principal researchers through their research institutions. PREA's nine-member volunteer advisory board reviews all applications and makes award recommendations to the Minister. While each recipient is eligible for up to $100,000 in program funding, an additional 50% funding from either a research institution or a private-sector partner is required. As of March 31, 2003, approximately $45 million had been awarded to 438 recipients.

Potential award recipients must submit a standard application, letters of reference, and letters guaranteeing the 50% matching private-sector contribution. Ministry staff distribute the applications to pairs of Board members for review. Each pair jointly recommends 10 applications for further consideration by the entire Board. The Board Chair reviews all applications, and especially complex applications may also undergo an external expert peer review. The score sheets and ratings from the review pairs, external expert peer reviewers, and the Board Chair are forwarded to the Ministry. The Ministry is to summarize the score sheets and prepare a short list of applicants. The PREA Board considers the Ministry's short list, determines final recommendations, and forwards these to the Minister for approval.

We reviewed the PREA selection process and found that the Ministry had not maintained sufficient documentation to support the selection decisions. For example, the Ministry retained score sheets for successful applicants only. Consequently, it was not possible to verify whether the most deserving applicants, as assessed by the review panel, were those recommended for awards. In addition, the reasons for rejecting applicants were not documented in the available Board minutes, and as of March 31, 2003, the minutes regarding all 2002 awards had not yet been prepared. Furthermore, the Ministry was unable to provide the summary score sheets for five of the seven competitions completed to date. We reviewed in detail the Ministry's summary score sheets for one of the two competitions that were available and noted that:

- one out of every four individual score sheets reviewed included only an overall score, as opposed to a separate score for each of the selection criteria;
- the overall marks on the individual score sheets did not match the marks on the Ministry's summary score sheet; and
- the scores on the summary score sheet did not match with the summary of scores on the Ministry's short list.

The selection criteria were also not clearly communicated to potential applicants. Award recipients are selected based on four criteria: the applicant's publication record, the ability to attract financial support from other sources, letters of reference, and the merits of the proposed research plan. The Ministry's Internal Audit Services Branch surveyed grant recipients following the first round of competition and found that the selection process and program criteria were unclear. We reviewed the more recent competitions and noted that the evaluation criteria, scoring process, and weightings for each criteria were still not explicitly communicated to applicants. Guidelines are provided to reviewers on scoring and weighting for each criterion, but the guidelines state that reviewers have the discretion to change the criteria's weightings for the final score. Ministry staff informed us that the assigned scores were only a guide and that reviewers' comments had a greater impact on the final recommendations. In such an environment there is no assurance that the scoring criteria for all proposals are comparable.

There were other inconsistencies in the evaluation process. For instance, a different rating system was available for new researchers. The guidelines state that given new researchers' lack of granting history and independent publications, more weighting should be placed on letters of support and on the research plan. The Board also recommended that all applications by new researchers be externally reviewed. There is merit in using an alternative evaluation method for these applicants; however, the practice was not consistently applied. We identified examples where each of the four criteria were given equal weighting, and others where applicants were evaluated in only three of the four categories. In addition, only two-thirds of the applications by new researchers were externally reviewed.

Recommendation

To provide assurance that a fair and transparent selection process is followed and that due diligence is demonstrated when assessing proposals for the Premier's Research Excellence Awards, the Ministry should ensure that:

- **all selection documents—including proposals, individual score sheets, summary score sheets, and written recommendations—are kept on file for a specified retention period;**
- **all individual and summary score sheets are reviewed for accuracy; and**
- **the selection process and evaluation criteria are explicitly stated to potential applicants and applied consistently.**

Ministry Response

The Ministry agrees and will review, update, and document its procedures for Premier's Research Excellence Awards (PREAs) to address these issues. Specifically:

- ***All relevant selection documents will be kept on file for a specified retention period.***
- ***The Ministry will work with the PREA Board to review the evaluation methods to improve accuracy and consistency prior to the spring 2004 round of the PREA program.***

PREMIER'S PLATINUM MEDAL FOR RESEARCH EXCELLENCE—PROJECT SELECTION

The Premier's Platinum Medal for Research Excellence (Premier's Platinum Medal) was created in 2001 to keep outstanding senior researchers in the province. The award is intended for researchers at the mid-career level who have carried out a substantial amount of their work in Ontario, who have an international reputation for excellence, and whose body of research has contributed significantly to furthering knowledge in their field. The program is slated to cost the province $10 million over six years. The award includes a platinum medal, a citation, and a $1 million cash prize to support the winner's research at an eligible Ontario research institution, either by covering direct research costs or by endowing a scholarship, research fellowship, or chair in the recipient's name.

The Ministry's June 2001 Management Board of Cabinet submission established the Premier's Platinum Medal and assigned the responsibility for overseeing the new program to the Premier's Research Excellence Awards (PREA) Advisory Board. The Cabinet submission indicated that the Ministry would amend the Memorandum of Understanding (MOU) between the government and the PREA Board to outline terms of reference specific to the new program, the Board's mandate and responsibilities with regard to the new program, and the performance measures by which the new program's success would be evaluated. As of March 31, 2003, no changes had been made to the MOU.

The potential recipients of the Premier's Platinum Medal were nominated by their peers, and the selection process began by establishing a six-member subcommittee drawn from the PREA Advisory Board and the Ontario Science and Innovation Council, an independent body created to provide the government with long-term strategic advice on science, technology, and innovation. The subcommittee conducted an initial assessment of candidates to create a short list of seven nominees. The short list was forwarded to six international reviewers for their opinions and recommendations. After reviewing the international reviewers' assessments, the PREA Advisory Board recommended two nominees to the Minister for approval. At the time of our audit, although payments had not yet been made, the first two award winners had been announced.

Given the profile and prestige of the Premier's Platinum Medal, a fair and transparent selection process is essential. However, we noted that one candidate's nomination letter was dated 19 days after the competition's October 31, 2001, nominations deadline. The Ministry had not stamped the nomination package or recorded when the nomination was received. Also, adequate documentation to support the selection of the seven shortlisted candidates was not maintained by the Ministry. Subcommittee documentation was available from only four of the six members. In addition, most individual nominee score sheets were not on file. For many of the individual score sheets that were on file, there was no indication who had performed the evaluation. According to the subcommittee's recommendation letter to the Minister, 25 people were nominated for the award. However, one subcommittee member had made an attempt to categorize all the nominations reviewed, yet that categorization included only 14 of the 25 candidates. Without complete score sheets from all reviewers for each nominee, there is no documented assurance that the review process had been conducted in a fair and transparent manner.

Recommendation

To ensure that a fair and transparent selection process is in place for selecting recipients of the Premier's Platinum Medal for Research Excellence, the Ministry should:

- **update the Memorandum of Understanding with the Advisory Board to reflect the Board's responsibility for the program; and**
- **retain all documentation necessary to adequately support the eligibility and selection of each recipient of the Premier's Platinum Medal for Research Excellence.**

Ministry Response

The Ministry agrees and is currently updating the Memorandum of Understanding to outline the terms of reference for the program, the Board's mandate and responsibilities, and the performance measures.

All documentation necessary to adequately support the eligibility and selection of each recipient of the Premier's Platinum Medal for Research Excellence will be retained.

Program Monitoring

The Management Board of Cabinet directive on Accountability states that once expectations are clearly defined, effective accountability requires that there be reporting on and monitoring of performance in relation to those expectations. We reviewed the Ministry's monitoring efforts for three major grant programs: the Ontario Research and Development Challenge Fund, the Ontario Centres of Excellence, and the Premier's Research Excellence Awards. We also examined the Ministry's monitoring of potential conflicts of interest.

MONITORING THE ONTARIO RESEARCH AND DEVELOPMENT CHALLENGE FUND GRANTS

The Transfer Payment Accountability directive of the Management Board of Cabinet states that program managers must routinely obtain and review information on the status of recipient eligibility and performance. Program managers must also ensure that all required reports are received when due, and they must review and analyze these reports on a timely basis. In addition, program managers are responsible for identifying non-compliance with agreements and any failure by recipients to demonstrate continued eligibility. The Management Board of Cabinet's Accountability Directive states that the obligation to answer for results and for how responsibilities are discharged cannot be delegated to other parties.

The Ontario Research and Development Challenge Fund (Challenge Fund) has an established monitoring process that requires research institutions to submit quarterly disbursement requests, annual progress reports, audited reports at various stages of the project, and a final report when the project is completed. Research institutions are to submit the required reports to the Innovation Institute of Ontario (IIO), which administers the Challenge Fund. We reviewed this monitoring process and noted the following:

- In accordance with the agreement between the Minister and the research institution, an institution that has not requested a quarterly disbursement for the last six months is deemed to have abandoned the project. At the time of our audit, the IIO was administering approximately 60 projects that were listed as active. But almost half these projects had not received funding for more than six months. More than 20 projects had not received funding from the program in more than a year, and one of these projects had not received a payment in more than three years. IIO staff told us that some of these projects were delayed, others had not submitted the required quarterly reports or had submitted information that had proven to be problematic, and the status of seven of the projects was not known. These levels of inactivity warranted a more thorough follow-up, which could result in termination of the agreement between the Minister and the research institution. Funds could then be allocated to other projects that could help the Ministry meet its objectives in a more timely manner.

- Program staff use annual progress reports to determine whether milestones and targets agreed to in the project contract have been met and whether the project is on schedule. From our sample of active projects, we found that only about 10% had submitted the required annual report on time. Most annual reports were submitted late—missing the deadline by an average of eight months—and 30% of these projects had never submitted an annual report. The IIO did not follow up to ensure that all annual reports were submitted on time. Periodic reporting and follow-up are essential to help identify, for corrective action, situations where funds are not being used for the purposes intended.
- The Ministry has not established an overall policy regarding when audited reports, outlining where grant monies were spent, are required. Consequently, the requirement for audited reporting was inconsistent. The frequency of reporting was loosely based on the value of the approved grant. Some projects were required to submit audited reports annually, others at the end of a project, and still others at other specified times. In addition, there are no clear guidelines on the audited report's required contents. Some projects submit financial statements, while others submit only a statement of expenses. Based on the scheduled dates when audited reports were to be submitted, only one of the audited reports we tested had been submitted on time. Almost half had been submitted late, and the other half had not been submitted at all. On average, audited reports were overdue or submitted late by almost one year; some reports were two years overdue and had still not been received. According to the contract between the Ministry and the IIO, the Ministry must review and examine financial reports from recipients. There was little evidence on file that the Ministry had formally reviewed the audited reports that had been received.
- When a project is completed, program policy requires recipient institutions to submit a final report summarizing the project's accomplishments in relation to the milestones and deliverables agreed to in the contract. At the time of our review, 15 projects had been completed, but only three of these projects had submitted their final reports on a timely basis. The other 12 final reports either had been submitted late or remained outstanding.

The lack of follow-up to ensure that the required reports were received indicates that the IIO and the Ministry cannot demonstrate that project milestones have been achieved or that program funds have been used for the purposes intended.

Recommendation

To ensure that Ontario Research and Development Challenge Fund (Challenge Fund) grants are used for the purposes intended and that project performance is reported on and monitored, the Ministry should:

- **review for continued eligibility all projects that have not received payments from the Challenge Fund in the previous six months, and implement an ongoing process for identifying and following up on such projects;**
- **establish an overall policy regarding when audited reports are required, implement clear guidelines on the form and content of these reports, and ensure that quarterly, annual, audited, and final project reports are received when due; and**
- **on a timely basis review and analyze all reports received to ensure that projects remain eligible, to determine whether milestones have been met, and to assess whether performance has been satisfactory.**

Ministry Response

The Ministry agrees with the recommendation and will work with the Innovation Institute of Ontario (IIO) to update policies and procedures for the monitoring of the Ontario Research and Development Challenge Fund (Challenge Fund) program, as outlined. Specifically:

- ***The Ministry will ask the IIO to provide, by December 31, 2003, a project review and recommendations on projects that have not been funded in the past six months and will work with the IIO to develop a quarterly reporting process.***
- ***A review of procedures and of the form and content of reports will be undertaken by March 31, 2004, to ensure that quarterly, annual, audited, and final project reports are received in a timely manner.***
- ***Ministry staff will review and analyze reports received from its service provider to assess performance.***

MONITORING THE ONTARIO CENTRES OF EXCELLENCE

The Ontario Centres of Excellence (OCE) program was established in 1987 to provide industry with greater access to leading edge ideas and to help transform such knowledge into new products and services. There are currently four Centres of Excellence: Materials and Manufacturing Ontario, Communications and Information Technology Ontario, Photonics Research Ontario, and the Centre for Research in Earth and Space Technology. Annual funding for all four centres combined is approximately $33 million.

The Ministry has provided the OCE program with more than $500 million since the program was established in 1987. To ensure that these funds are used to achieve program objectives, Management Board of Cabinet directives require the Ministry to implement an effective monitoring process. Such a process would require the Ministry to receive from each of the four centres performance reports demonstrating the prudent use of public resources in compliance with defined expectations. The Ministry requires the centres to submit annual operating plans, audited financial statements, and reports from the president. We reviewed the Ministry's monitoring process and noted the following:

- The Ministry is required to review and approve an annual operating plan for each centre that is to be submitted 60 days before the fiscal year starts. The operating plan is to include a comprehensive budget, general objectives, strategies for achieving those objectives, a list of research projects to be funded, and commentary on initiatives to be undertaken throughout the year. We reviewed the operating plans submitted for the 2002/03 fiscal year and found that although three of the four plans had been submitted late, all four were eventually submitted; all the major requirements were included in each plan; and the Ministry had reviewed and approved all four before the fiscal year began.
- Within 90 days after each fiscal year-end, the four Ontario Centres of Excellence are required to submit audited financial statements and a report from the centre's auditor reconciling ministry funding with actual spending. Although the receipt dates were unknown, at the time of our audit the Ministry had received audited financial statements from all four centres for the 2001/02 fiscal year.
- Within 90 days after each fiscal year-end, each centre's president is required to submit for the Ministry's review and approval a report detailing the program's status, the centre's affairs and progress, all sources of funds and spending, and performance measures of the centre's activities. Ministry staff informed us that none of the centres had ever submitted such a president's report, but that all had submitted annual reports that contained some of this report's required elements. However, at the time of our audit (in March 2003), none of the centres had submitted an annual report for the 2001/02 fiscal year. The most recent annual reports on file at the Ministry were for the 2000/2001 fiscal year, and some of the financial information in these annual reports did not match other information received by the Ministry. There was no evidence on file that the Ministry had followed up on these discrepancies.

Recommendation

To help ensure that an adequate monitoring process is in place to demonstrate that the Ontario Centres of Excellence use public resources prudently and in compliance with defined performance expectations, the Ministry should:

- **implement a process for tracking the receipt of all required monitoring reports, and follow up on any outstanding reports in a timely manner; and**
- **adequately review all reports received and reconcile the annual reports' information with that contained in the audited financial statements to ensure that reported information is accurate and complete.**

Ministry Response

The Ministry agrees and will ensure that appropriate monitoring and reporting is put in place for the Ontario Centres of Excellence Program.

The Ministry is currently implementing a new governance structure for the Centres through the Ontario Centres of Excellence Inc., a not-for-profit corporation that will be under contract to the Ministry to manage the Centres. The contract will set out performance measures and requirements for accountability and good governance. This contract will be completed by March 31, 2004.

MONITORING THE PREMIER'S RESEARCH EXCELLENCE AWARDS

Institutions whose researchers receive grants from the Premier's Research Excellence Awards (PREA) program are required, by the terms of their contracts with the province, to submit annual financial and performance reports to the Ministry within six months after fiscal year-end. This reporting requires the institution to set up and maintain a separate accounting for each grant, allowing it to track project spending and to record any other financial support received. Performance reports should include the amount of private-sector money contributed or committed; the number of researchers supported by the award; and the number of publications, patents, and licences resulting from award recipients' research. The Ministry is responsible for tracking performance measures and is required to consolidate the performance information into an annual report to the PREA Board for review and transmission to the Minister.

By October 1, 2002, a third of the PREA recipients we sampled had not submitted the required financial reports, and more than half had not submitted performance reports, for the previous fiscal year. Some reports were outstanding by as much as three years. Most of the reports that had been received were submitted late. The Ministry did not track submissions from award recipients to ensure that all required reports were received on time, nor was there evidence of adequate follow-up action by the Ministry.

Financial reports are necessary to allow the Ministry to verify that recipients are complying with the terms of their contract—for example, by ensuring that funds are being used for the purposes intended and that the required private-sector contributions have been received. But the Ministry did not adequately review the financial reports submitted by recipients, and the accuracy of many such reports was questionable. For several of the reports we reviewed, the cumulative value of the province's contribution as reported by the recipients in successive periods exceeded the maximum provincial contribution under the funding agreement. The Ministry had not identified these discrepancies for follow-up.

Performance reports help enable the Ministry to assess whether a program is accomplishing its goals of attracting, developing, and keeping talented graduate students and researchers in Ontario. Recipient institutions are responsible for tracking and reporting specific performance measures, including the number of researchers supported by the award and the number of students in the research group ultimately employed in Ontario industries. The Ministry is responsible for consolidating performance information (such as the movement of researchers into and out of the province) and for reporting annually on the program's results. However, in addition to not ensuring that all required performance reports were received, the Ministry had not consolidated the information that was submitted and had not reported to the PREA Board and the Minister as required.

Recommendation

To help ensure that the Premier's Research Excellence Awards program meets its objectives of attracting, developing, and keeping talented graduate students and researchers in Ontario and that funds are spent appropriately, the Ministry should:

- **ensure that all required financial and performance reports are received on a timely basis;**
- **verify that funds are being spent for the purposes intended, that the information submitted is accurate, and that project targets and milestones are being met; and**
- **analyze and consolidate the performance information reported by recipient institutions to assess the program's accomplishments, and report this information annually to the program's board and to the Minister as required.**

Ministry Response

The Ministry agrees and will review current practices to verify that funds are being used for the purpose intended and that appropriate information on performance results for the Premier's Research Excellence Awards program is being received, analyzed, consolidated, and reported on a timely basis.

MONITORING POTENTIAL CONFLICTS OF INTEREST

To ensure that government activities are conducted in an open, fair, and transparent manner, the Management Board of Cabinet has issued two directives that address potential conflict-of-interest situations for public servants and for individuals appointed by the government—the Conflict of Interest and Post-service Directive for Public Servants and Public Officials, and the Government Appointees directive. A conflict of interest occurs when someone's private interests may be incompatible or in conflict with that individual's public responsibilities. The Ministry is responsible for monitoring potential conflicts of interest for its current and former employees as well as (by virtue of agreements with program boards) for many government appointees. All boards must notify the responsible Minister of any potential conflicts of interest so that corrective action can be taken if necessary.

The Ministry relies on individuals from both the academic and the industry research communities to provide their expertise by reviewing research funding proposals and sitting on program boards and panels. Many program advisory boards, which typically comprise academic, industry, and government appointees, recommend to the Minister which research proposals should be funded. While board and panel members generally receive little or no remuneration, they may be involved in research proposals presented for funding or be shareholders in companies that are partnered with researchers submitting proposals. In addition, appointees may sit on several boards and panels. Consequently, clear, consistent, and rigorously enforced conflict-of-interest rules should be in place for all science and technology programs. However, the Ministry has no procedures in place for monitoring potential conflicts of interest.

Members of program boards and review panels who have an interest in a research proposal, through their connection either to a private-sector partner or to the applicant institution, are expected to withdraw from any discussion of that proposal for funding. We reviewed the board minutes of several programs and noted instances where board members appropriately self-declared numerous instances of potential conflicts and withdrew from discussions on related proposals. However, we also noted instances, which we brought to the Ministry's attention, where a conflict of interest should have been declared, but there was no indication in the minutes that a conflict had been declared. The Ministry did not have sufficient information to determine whether all conflicts had been appropriately declared, because the Ministry does not require Board appointees or advisory panel members to disclose potential or real conflicts of interest either when they are appointed or if their circumstances later change. We also found no evidence that the Minister was notified of all potential conflicts of interest as required by Management Board of Cabinet directives.

Recommendation

To ensure compliance with the government's post-service and conflict-of-interest requirements and to ensure that its science and technology activities are conducted in an open, fair, and transparent manner, the Ministry should:

- **develop consistent conflict-of-interest policies that apply to all science and technology grant programs;**
- **develop standardized procedures for adequately monitoring potential conflicts of interest; and**
- **inform the responsible Minister of all conflicts of interest as required.**

Ministry Response

The Ministry agrees that there should be openness, fairness, and transparency in the conduct of the science and technology programs.

The Ministry will establish a working committee to develop consistent conflict-of-interest policies for its programs and will work with central ministries in this

regard. The Ministry will use the conflict-of-interest provisions applicable to members of advisory boards and expert panels under Management Board Directives and Guidelines as a basis for the review.

The Ministry will take any necessary steps to ensure that the policies are followed and, where appropriate, will bring conflict-of-interest matters to the attention of the Minister.

Project Benefits

The benefits of science and technology programs include the retention of intellectual property rights and industry support. Retaining intellectual property rights for use in Ontario benefits the province economically, because successful research can stimulate economic activity (such as creating jobs). Industry support also benefits the province economically, because most programs are designed to encourage industry participation, and such participation generally encourages commercially beneficial research, which in turn benefits the whole economy.

INTELLECTUAL PROPERTY RIGHTS

Intellectual property rights represent the legal ownership resulting from research and academic activities that can result in patents, trademarks, and copyrights. The owner of intellectual property has the right to exclude others from using it, and ownership can be transferred or sold. One of the Ministry's major objectives is to support job creation and economic growth. Consequently, grant recipients have a responsibility either to use intellectual property in Ontario or to use their best efforts to license the intellectual property for use in Ontario.

We reviewed a number of the Ministry's science and technology programs to determine whether research discoveries were benefiting the province and ultimately its taxpayers. We found that the Ministry had no general guidelines for safeguarding its interests regarding intellectual property rights. For example, ministry contracts under the Premier's Research Excellence Awards program contained no clauses regarding intellectual property rights. Ministry requirements under other programs were equally deficient:

- The Memorandum of Understanding (MOU) between the Ministry and the Ontario Research and Development Challenge Fund Board requires that contracts with Challenge Fund grant recipients include an intellectual property clause ensuring that the applicant institution possess the right to use the intellectual property necessary to complete the project and that it will not dispose of those rights without the province's consent. However, we found that more than 80% of the contracts we reviewed did not include the required clause. We were informed that funds had been committed to projects that were later delayed indefinitely because of disputes over intellectual property rights.

- The MOU also requires that any intellectual property rights arising from ministry-funded research be owned by the applicant institution rather than by researchers or private-sector partners. The applicant institution is expected to make mutually agreeable commercialization arrangements with its business partners and to demonstrate how the project's economic benefits extend beyond the business partners to the Ontario economy. This clause is intended to ensure that research funded by the province benefits the people of Ontario first. But contrary to program policy, 73% of the contracts we reviewed stated that intellectual property could belong to either the inventor or the recipient institution, and that it was up to these parties to determine who would own these rights. Furthermore, the contracts did not obligate intellectual property owners to confer the benefits to Ontario. Consequently, the province's economic interests may not be sufficiently protected. An expert panel's 1999 report to the Prime Minister's Advisory Council on Science and Technology titled *Public Investments in University Research: Reaping the Benefits* concluded that vesting intellectual property ownership with university researchers instead of the university itself is one of the single biggest factors accounting for lost commercialization opportunities in Canada.

Recommendation

To help meet its overall objectives of supporting job creation and economic growth that benefits the people of Ontario, the Ministry should:

- **ensure compliance with program policies on intellectual property rights;**
- **review existing policies and develop consistency among programs regarding the ownership of intellectual property; and**
- **formally assess the various programs' success in meeting their objectives.**

Ministry Response

The current trend across North American jurisdictions is to permit research institutions to vest the intellectual property rights with either the institution or the researcher. Accordingly, the Ministry will establish a working committee to work with central ministries and review the policies on intellectual property rights for all the science and technology programs to assess the best approach to achieve ministry objectives and ensure all research institutes in Ontario are treated fairly and have access to funding from the science and technology programs.

INDUSTRY SUPPORT

Industry participation is required for most ministry programs to help ensure that the research being conducted is of commercial interest to the business community and will therefore bring about economic growth. The private sector's interest in the research conducted influences its willingness to support the research through various forms of contributions. In-kind contributions include such items as equipment, proprietary software, researchers' salaries, and overhead. Such contributions must be properly valued to ensure that each funding partner contributes its fair share as established under the funding program policies.

We reviewed industry's cash and in-kind contributions to ministry-funded projects and found that the Ministry had not ensured recipient compliance with program requirements for industry participation or established consistent policies for assessing in-kind contributions. For example:

- The Ontario Research and Development Challenge Fund (Challenge Fund) requires that all approved proposals have confirmed private-sector contributions or commitments totalling at least a third of the proposal cost "in order to ensure that funds are committed to proposals relevant to business and industry." But 30% of the projects we reviewed did not have commitment confirmation letters from private-sector partners on file. The unconfirmed commitments totalled $38 million in cash and in-kind contributions. Also, the policy requiring a one-third contribution from the private sector has not been consistently applied across projects. Ministry contributions ranged from 4% to almost 60% of the total project cost. While some projects were approved when ministry contributions exceeded the one-third guideline, other projects were required to find additional funding within a specified period to make up the 33% requirement.
- In-kind contributions are accepted if they are critical to the proposal's success and if their monetary value is assigned in a reasonable manner, normally through third-party valuations. The Memorandum of Understanding requires the Challenge Fund Board to develop criteria for the valuation of in-kind contributions and to ensure that applications conform to these criteria. Fair valuations of private-sector contributions are necessary to ensure that the Challenge Fund is not contributing disproportionately to projects by matching in-kind contributions whose values have been inflated. But at the time of our audit, despite $113.6 million in private-sector in-kind contributions having been reported, no criteria for the valuation of in-kind contributions had been put in place. We reviewed each private-sector in-kind contribution valued at more than $2 million and found no evidence on file of independent third-party evaluations to confirm that reported in-kind contributions had been fairly valued.

Recommendation

To better ensure that the required private-sector contributions are actually made, the Ministry should:

- **verify that the required commitment confirmation letters are received before funding research projects;**
- **consistently apply the criteria for proportionate program funding and document justification for any exceptions; and**

- **develop policies for the independent valuation of in-kind contributions.**

Ministry Response

The Ministry agrees that private-sector contributions must be made for the research projects and has placed the responsibility for obtaining the private-sector funding with the research institute under the contract agreement with the Ministry.

The Ministry will ensure that the private-sector contributions are made for each project, will document exceptions, and will develop appropriate policies for independent valuation of all in-kind contributions of a material value.

PROGRAM FINANCIAL AND ADMINISTRATIVE CONTROLS

Program Administration

The Science and Technology Division has approximately 50 staff and annual direct operating expenses of about $7.8 million. The Division paid out more than $1.3 billion in transfer payments between April 1, 1998 and March 31, 2003 and has made commitments to spend $3.0 billion more. Advisory boards provide the Minister with a list of projects to approve for funding, often without the benefit of a review by and assurance from ministry staff that all significant policies have been complied with. We were informed that the Minister had approved every grant recipient recommended for funding by the advisory boards of the Ontario Research and Development Challenge Fund (Challenge Fund), the Premier's Research Excellence Awards, and the Premier's Platinum Medal for Research Excellence.

We reviewed the Division's financial and administrative controls and concluded that controls over its funding of transfer-payment recipients needed to be improved. Some of our concerns are as follows:

- For the Challenge Fund program, program policy requires that a contract between the province and the applicant be signed within 90 days of project approval and that funding not be provided until a signed contract is in place. Contractual arrangements are necessary to ensure that the interests of the province, the institution, the researcher, and the private-sector contributors are protected and that each participant's roles and responsibilities are clear. Since the program's 1997 inception, more than 100 projects have been approved, for a total of $435 million in program funding. But almost 30% of these projects, approved to receive a total of $128 million from the Challenge Fund, were without contracts. Although the program administrator had ensured that no money had been paid out for projects with no contracts, $128 million in program funds had been committed to inactive projects where the average length of time since the project was approved was more than 18 months and some projects had been approved up to three years ago.

- Several science and technology programs provided funds in excess of the recipients' current needs. For example, other ministries prepaid funds to recipients of top-up grants from the Ontario Research Performance Fund that resulted in a corresponding prepayment by the Ministry. In addition, the Ontario Innovation Trust was provided with $510 million more than its current needs, and as of the beginning of the 2002/03 fiscal year, the Trust had earned $72 million in interest. Conversely, the Ministry made a conscious effort to reduce the prepayment of funds to the Ontario Centres of Excellence, and as a result, the government may have saved more than $500,000 in interest annually.
- A member of the Ontario Research and Development Challenge Fund Advisory Board and a member of the board of the IIO (essentially a private corporation) signed a contract with an individual to work for the Challenge Fund. This individual was to receive $100,000 annually, plus office and travel expenses. However, neither board member had the authority to hire staff for a ministry program.
- Although the Ministry acknowledges the need for information systems that provide timely, relevant, accurate, and complete program information, no such systems are in place to help ministry staff manage transfer-payment programs. Within the Ministry, there is a reliance on computer-assisted or manually maintained lists of projects and key activities that may need action. A well-designed management information system could capture the key data necessary for tracking performance and compare those data against contracted milestones and established targets, for the program as a whole and for individual grant recipients.

Recommendation

To improve the Division's financial and administrative controls, help achieve due regard for economy, and improve staff efficiency, the Ministry should:

- **assess the continued merit of any approved research projects that are inactive and, where necessary, terminate funding commitments to inactive projects;**
- **review prepaid funding, so that payments are made to cover only current needs;**
- **clarify the roles and responsibilities of advisory board members and others involved in administering science and technology programs; and**
- **develop an information system to provide the Ministry's staff with the information needed for effectively overseeing its transfer-payment programs.**

Ministry Response

The Ministry agrees and notes that, over the past two years, the number and size of the science and technology programs have increased significantly. As a consequence, the Ministry is undertaking a review to determine the level of resource requirements required to effectively administer these programs.

The Ministry will also review all projects that are currently inactive and take appropriate action to restart or terminate any projects identified by March 31, 2004. The Ministry is also currently developing an information system for transfer-payment programs.

The Ministry will assess the need for prepaid funding and clarify the role of advisory board members as part of its review of administrative policies.

The Ministry will clarify the roles and responsibilities of advisory board members with respect to the administration of any programs.

Innovation Institute of Ontario—Administration

In June 2000, the Innovation Institute of Ontario (IIO), a subsidiary of the Ontario Innovation Trust, was created to provide support services for the Trust and potentially for other ministry programs. In July 2000, the Ministry requested permission to single-source administration of the Ontario Research and Development Challenge Fund (Challenge Fund) to the IIO. But contrary to the government's Framework for Alternative Service Delivery, the Ministry did not perform a detailed analysis of alternative delivery options. In addition, the Ministry did not want to issue a request for proposals (RFP) because once an RFP is out, anyone who is eligible must be treated fairly in the process, and problems could arise if a bidder was not dealt with fairly after an investment of time and resources in the preparation of a proposal. Single-sourcing, especially for this reason, contradicts the basic principles of government procurement.

The Ministry stated that the IIO was designed to provide administrative and support services in the most cost-effective way possible. But no cost analysis was done to support outsourcing. Furthermore, the Ministry noted that the outsourcing would not lead to substantial cost savings, and although a number of qualitative benefits were expected, the Ministry did not subsequently assess the outsourcing arrangements to determine whether these benefits were realized.

The Division's payments to the IIO for administering the Challenge Fund are to be based on actual costs incurred and are to be negotiated every year based on operating plans and budgets submitted by the IIO. But neither negotiations with the IIO nor submissions of annual operating plans and budgets by the IIO are timely. At the time of our audit in March 2003, the Ministry had not received the budget for the fiscal year ended March 31, 2003. Likewise, the fees for the 2001/02 fiscal year were not approved until after that year ended.

Moreover, the Ministry does not know whether the amounts being charged by the IIO are reasonable. The Ministry does not receive audited financial statements from the IIO. Such statements could provide assurance that expenses reported by the IIO were incurred as reported. We requested financial statements from the IIO and received unaudited statements for the 2000/01 and 2001/02 fiscal years. Although the expense categories in these financial statements differed from those in the funding requests, the salaries and benefits paid to the IIO (based on the funding request) for administering the Challenge Fund exceeded the salaries reported for the corporation as a whole in the financial statements by $200,000 in the 2000/01 fiscal year and by $120,000 in the 2001/02 fiscal year. This may be partly due to the difference between the financial statements' expense categories and those in the funding requests. However, the Ministry had not identified or followed up on those discrepancies.

The Challenge Fund should pay only a fraction of IIO costs, because the IIO provides administrative services to other ministry-funded programs. But the Ministry has never received a workload assessment to justify the amounts being charged to the Challenge Fund and other government-funded programs. In addition, in its first two years of operations, the IIO, which is a not-for-profit corporation, received total revenues of $4 million, which exceeded total expenses by $700,000.

Furthermore, it is unclear how expenses are being managed between the IIO and its parent, the Ontario Innovation Trust. For example, the Trust's 2001/02 financial statements disclosed a $400,000 loan to IIO. According to the agreement between the Ministry and the Trustee, Trust disbursements are allowable only for the purposes of funding eligible research projects and administering the Trust, not for providing loans to other entities.

Recommendation

To ensure that the fees paid to the Innovation Institute of Ontario (IIO) for administering the Ontario Research and Development Challenge Fund (Challenge Fund) are reasonable, the Ministry should:

- **assess whether the expected benefits of outsourcing have been achieved;**
- **insist on receiving a budget and operating plans from the IIO before each fiscal year begins, instead of after the year has been completed;**
- **ensure that it receives audited financial statements from the IIO for use in assessing the appropriateness of fees charged for administering the Challenge Fund; and**
- **ensure that the detailed breakdown of the budget submissions correlates with the expense categories used in the financial statements and follow up on any discrepancies.**

Ministry Response

The Ministry agrees that the fees paid to the Innovation Institute of Ontario (IIO) for the administration of the Ontario Research and Development Challenge Fund (Challenge Fund) should be reasonable and transparent and is working with the IIO to improve both the timing of reporting and reports received; areas in which reports would be improved would include the details for services provided and fees charged.

The Challenge Fund is on the Ministry's list of programs to be evaluated for the 2003/04 fiscal year, per Management Board guidelines. The service agreement will be reviewed as part of this program evaluation.

MEASURING AND REPORTING ON PROGRAM EFFECTIVENESS

Program Planning

An organization's mandate identifies its overall purpose, provides general direction, and helps in developing specific plans for implementation. The Ministry's mandate is to foster an Ontario with competitive businesses and a prosperous economy by promoting innovation, economic growth, and job creation. The Science and Technology Division endeavours to contribute to this mandate by building a culture of innovation, investing in people and infrastructure to create knowledge, and creating a supportive climate that fosters commercialization of research and brings knowledge to the marketplace. But the Division does not have a strategic plan with clearly stated goals that will help it accomplish its mandate.

Since the Ministry does not directly manage many of the programs funded by the Science and Technology Division, it is essential to have not only appropriate accountability mechanisms and clearly stated goals but also inter-organizational collaboration. But as noted previously, the Ministry is not provided with enough information on the activities of some of its programs to properly co-ordinate funding activities. For example, the Division receives virtually no information from the Ontario Innovation Trust regarding its spending of $750 million of public funds, and the Division is not apprised of the Trust's key objectives, funding priorities, or future plans. The Ministry is accountable for co-ordinating science and technology research throughout the province. Such co-ordination would include setting program parameters and developing detailed policies that provide a level of consistency and guidance for the Trust, the programs' advisory committees, and other decision-makers.

Strategic directions encompassing clear goals, priorities, and expected results should guide research decisions, program development, and ultimately the selection of specific research projects. Since the 1997 inception of the Ontario Research and Development Challenge

Fund, the Ministry has announced more than a dozen new science and technology transfer-payment programs, some of which target highly specific areas of research. These program commitments range from $10 million to more than $1 billion. But the announcement of new programs did not result from executing a comprehensive plan or from systematically assessing long-term provincial needs.

The Ministry has reported a strategic framework for Ontario's science and technology programs. This strategy outlines a number of concepts that build towards high-value-added jobs in the province. However, the Ministry does not have a detailed plan outlining how it intends to reach this objective. The Ministry's science and technology activities need an overall strategic plan to set parameters and consistent policies for existing programs and to guide the development of new programs.

Recommendation

To formalize its co-ordination responsibilities and provide clear direction for program development and delivery, the Ministry should:

- **review all research programs and prepare a detailed strategic plan that sets specific goals and objectives for research in the province; and**
- **outline policies—such as conflict-of-interest rules, project selection criteria, and monitoring guidelines—that all programs must follow regardless of the delivery mechanism.**

Ministry Response

The Ministry agrees there should be clear direction for its research programs and will continue to refine and update the strategic framework to ensure its relevance for supporting research in Ontario.

The Ministry supports clarifying its goals and objectives for supporting research and development activity in Ontario.

In light of the audit findings, the Ministry will review the program delivery policies with internal and external experts for all research programs and establish a consistent approach to conflict of interest, selection criteria, contract agreements, and monitoring guidelines. Any subsequent policies will need to take into consideration the differences in objectives for the various programs.

Effectiveness Reporting

Through the government's business planning process, the Ministry is required to report to the Management Board of Cabinet and ultimately publish a combined business plan and annual report that outlines plans for the coming year and reports on performance from the previous year. The business planning process is meant to improve decision-making, support the development and delivery of high-quality programs, ensure that program outcomes are aligned with overall government priorities, and improve the Ministry's accountability for measuring and achieving results. Published business plans and annual reports are also intended to support openness and accountability to the public and the Legislature.

We reviewed the Ministry's business planning process. The Ministry outlined a number of performance measures for its core businesses, each of which had targets and commitments. Although some actual results were reported internally, the Ministry did not measure and report publicly on the achievement of its overall goals of promoting innovation, economic growth, and job creation. Only one performance measure was reported in the Ministry's published Business Plan for the 2002/03 fiscal year. This performance measure, the anticipated growth in the value of non-government-sponsored research over the next five years, is future oriented and does not reflect the impact of the Ministry's efforts on achieving its goals.

In previous years, the Ministry's goals included growth in Ontario's health and biotechnology industry, increased participation in the digital economy, and job growth in Ontario's knowledge-based economy as compared to selected jurisdictions. However, we were informed that these goals and their related performance measures were dropped because the Ministry's impact was largely indirect and because the Ministry depended on the private and academic sectors to successfully partner with the government.

To determine whether the Ministry had developed clearly stated performance measures for individual programs, we reviewed all science and technology programs with transfer-payment commitments of $10 million or more. The major science and technology programs published their results annually, although those reports were often out of date. Many programs reported only a list of grants, research success stories, or activity-based measures, such as the number of projects funded or the money contributed by the private sector. Such reporting does not reflect what impact the Ministry's funding initiatives have had on promoting innovation, economic growth, and job creation. In addition, the lack of timely reporting precludes the Ministry from taking any necessary corrective action in a timely manner.

Of all the Ministry's funding initiatives, the Ontario Centres of Excellence had developed the most comprehensive performance measurement and reporting system. The centres reported that from 1998/99 to 2001/02, as a result of their sponsored research, 98 spin-off companies started up, 536 people were employed, 406 patents and registered copyrights were issued, and an additional $30 million investment was generated from the private sector. Although these are measures of a degree of success, the Ministry has not established targets or benchmarks against which to measure such performance results so that success and failure can be readily determined.

In December 2002, the Ministry published the Ontario Innovation Index. This report is intended to measure the province's transition to a knowledge-based economy, showing how well Ontario is performing in comparison with other jurisdictions and identifying areas needing improvement. The index reports on 30 indicators of community awareness, infrastructure, knowledge transfer and use, and economic and societal outcomes. The index should be a useful tool for assessing provincial performance. But the indicators were not designed to isolate the impact of the Ministry's science and technology programs. The Ministry has no direct impact on some indicators—such as student enrolment in secondary school science courses. The Ministry's activities do impact indicators relating to innovation performance, such as the number of patents, the number of business startups, and technology adoption rates. But the Ministry would still have to assess the degree to which its activities had impacted on these province-wide measures.

Recommendation

To provide better accountability to the public and the Legislature for its use of public funds, the Ministry should:

- **develop performance measures, targets, and benchmarks that reflect its accomplishments and contributions to the overall goals of promoting innovation, economic growth, and job creation;**
- **perform the necessary assessments to measure whether its initiatives are effective in achieving overall ministry goals; and**
- **report on the actual achievement of these measures, explaining any significant deviations from established targets and benchmarks.**

Ministry Response

The Ministry is committed to measuring the contribution of its programs in promoting innovation, economic growth, and job creation in Ontario and will identify and adopt a funding focus to science and technology research and development programs that is consistent with current global trends and best-in-class approaches to supporting innovation.

The Ministry will establish feasible performance measures to demonstrate how the science and technology programs contribute to ministry objectives. It will assess and report on achievements and will refine and improve these measures as required.

3.08–Environet

BACKGROUND

The Ministry of the Environment has a broad mandate to restore, protect, and enhance Ontario's environment to ensure public health and environmental and economic vitality. It works to ensure cleaner air, water, and land through many Acts and associated regulations, which include the *Ontario Water Resources Act*, the *Environmental Assessment Act*, and the *Environmental Protection Act*.

In 2000, the Ministry developed a new information technology vision and strategy called Environet to strengthen the delivery of its environmental programs. The Environet envisages and provides for individual management information systems to collect and report data that ministry management and staff need to enhance their inspection and other compliance work. The systems being developed as part of the Environet strategy include:

- a Drinking Water Information System (DWIS) incorporating electronic submission of water quality test results from laboratories that analyze water samples from Ontario's waterworks facilities;
- a Hazardous Waste Information Network (HWIN) to replace the legacy system, Hazardous Waste Information System (HWIS), for tracking hazardous waste movements throughout the province;
- an Air Emission Registry (OnAir) that receives emission reports electronically from facilities emitting airborne contaminants and posts this information on a public Web site; and
- a Computer Assisted Mobile Enforcement Office (CAMEO) system that provides a SWAT inspection group with the ability to access and maintain inspection information while in the field.

At the time of our audit the Ministry had spent approximately $17.1 million developing these applications.

The Environet is a long-term strategy and as such is being designed to ensure flexibility in response to future legislative and regulatory changes. Several of its planned components have yet to be finalized. Through the use of the Environet systems—along with strong deterrents and aggressive inspection and enforcement activities—the Ministry plans to strengthen its environmental analysis and reporting capabilities, improve industry compliance with its regulations, and fulfill the government's future environmental commitments.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit of the Environet were to assess whether the Ministry had adequate policies and procedures in place to:

- ensure that Environet systems adequately addressed existing legislative and regulatory requirements; and
- ensure that the Environet systems are being developed in accordance with government and IT best practices and the government's environmental commitments for which the Ministry is responsible.

At the beginning of our audit, we identified audit criteria that would be used to address our audit objectives. These were reviewed and accepted by senior ministry management.

Our audit was substantially completed by the end of March 2003. The scope of our audit included discussions with ministry staff and a review and analysis of relevant policies, procedures, and related documents on the four major Environet applications listed earlier.

As part of our audit, we used a number of Computer Assisted Audit Techniques (CAATs) to extract and analyze ministry and industry data housed in the databases supporting each system. Given the importance of the Ministry's inspection activities in ensuring compliance with environmental regulations, we reviewed the use of the Environet systems by inspectors and followed up on a number of inspection issues made in prior audit reports.

We did not rely on the Ministry's internal auditors to reduce the extent of our work because they had not conducted any recent work in the areas covered by the audit.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants. Accordingly, it included such tests and other procedures that we considered necessary in the circumstances.

OVERALL AUDIT CONCLUSIONS

We concluded that, at the time of our audit, the Ministry's Environet systems did not provide ministry staff with the information needed to support the Ministry's responsibilities of ensuring that drinking water meets regulatory standards, that hazardous waste movements are properly controlled, and that all air emissions are monitored and reported where required. We further noted that the Environet systems do not, as yet, enable the Ministry to summarize and analyze regulatory compliance and to maximize inspection efforts by identifying areas of highest risk. The Ministry continues to rely on legacy systems and manual procedures in some instances. More effort will also be needed to ensure Environet systems adequately support all the Ontario government's environmental commitments. Our major findings were:

- The Drinking Water Information System (DWIS) did not identify whether all waterworks were submitting their required sample test results. We noted that 300 of the 1,476 currently registered non-municipal waterworks have never submitted any test results to the Ministry. The Ministry is still following up on 237 of these facilities. Furthermore, 612 or approximately 27% of registered waterworks had not submitted the minimum number of water samples for two of the highest-risk substances, *E. coli* bacteria and fecal coliform.

- Many waterworks continue to experience compliance difficulties including exceedances, which are water samples with unacceptably high concentration levels of regulated substances. Although exceedances represent less than 1% of total samples taken, our data-extraction work did identify 6,725 exceedances since 2001. Of these, 3,181 were identified as Adverse Water Quality Incidents (AWQI), which are more serious exceedances that affect human health.

- The ministry systems and procedures did not ensure all AWQI were reported and followed up on. For example, the Ministry was not aware of 31 out of 46 AWQI at one waterworks. Moreover, summary reports did not distinguish the more serious AWQI from other exceedances, or raw-water samples from treated-water samples. Such reports were therefore of little value in ensuring that the highest-risk cases were prioritized for investigation. Furthermore, the system did not report on whether problem incidents were resolved.

- A new tracking system to accept electronic transaction submissions from hazardous waste generators, carriers, and receivers was being used for less than 1% of hazardous waste movements. The older, inefficient, paper-manifest system was still being used to handle almost all transactions because the new system could not accept paper submissions. The new system also had few analysis and reporting capabilities. Although we noted that over 5,000 unauthorized hazardous waste movements (which represent less than 3% of total movements) were flagged by the system, we found no evidence of any follow-up action to investigate and resolve them.

- The new CAMEO application was working well. For example, its mobile capability allowed the SWAT team to access ministry data at inspection sites, thus increasing efficiency.

- Although the Ministry has recently increased the number of inspectors, total inspection activity is currently at 73% of 1995/96 levels and inspectors are averaging fewer inspections annually. We were informed that this was due to the increased length of time it now takes to conduct inspections. Given the significant increase in the number of facilities that are now covered by new regulations, the Ministry needs to develop a strategy to deal with these new regulated facilities. For example, last year water inspectors visited only 54 of the 357 private, drinking water treatment plants and 44 of the 1,119 smaller plants and designated facilities.

Overall Ministry Response

The Provincial Auditor's* Report *is consistent with ongoing ministry initiatives to increase the effectiveness of our Environet systems. The Ministry recognizes that its ability to engage in effective inspection, investigation, and enforcement activities in all areas of its responsibility—air, water, land—can be enhanced by information technology. Over time, the Ministry has developed multiple systems, usually on a program-by-program basis, to assist staff by providing more effective and efficient data collection, analysis, and reporting.

Recognizing that an integrated strategy for managing information could prove even more useful, the Ministry adopted the Environet information technology strategy in 2000. The Environet strategy was designed to provide the Ministry with more effective day-to-day information with which to manage current programs.

Since Environet is a long-term strategy, the Ministry is moving forward on a timetable that allows for adequate development and testing of new systems and a smooth transition from old systems to new.

DETAILED AUDIT OBSERVATIONS

DRINKING WATER

There are more than 1,100 large waterworks facilities in the province that provide drinking water for Ontario residents. Municipalities own and operate over 700 of these facilities, which service approximately 80% of Ontario households. In addition to these large facilities, approximately 1,100 smaller private waterworks provide drinking water to many rural areas and to a number of institutions, including schools, day nurseries, social and health care facilities, and trailer parks.

As a result of the May 2000 tragedy in Walkerton that claimed seven lives and caused more than 2,300 people to become ill, the Ontario government in August 2000 launched Operation Clean Water—an action plan designed to ensure that Ontario residents have the safest drinking water in Canada. The cornerstone of this plan was a new Drinking Water Protection Regulation under the *Ontario Water Resources Act*. Covering all municipal and large waterworks systems, the regulation set out revised minimum sampling, analysis, and reporting standards for each facility. As well, the Ministry adopted a new policy of inspecting all municipal waterworks annually. In its first report on municipal facility inspections under the new program, inspectors noted that of the 558 facilities visited, 275 or 49% failed to conform to established standards and 24% were repeat offenders. Two hundred correction orders were issued.

In December 2001, a second regulation, the Drinking Water Protection Regulation for Smaller Waterworks Serving Designated Facilities came into effect. This regulation significantly expanded the scope of the Ministry's monitoring responsibilities by introducing new sampling and testing requirements for many previously unregulated smaller waterworks facilities.

Over the past year, the Ministry has continued to address drinking water issues. In the two-part report of the Walkerton Inquiry released in January and May 2002, Mr. Justice Dennis O'Connor made many recommendations for improving Ontario's water system from "source to tap." The government has accepted these recommendations and has committed to implementing all of them eventually. Many were addressed in Ontario's new *Safe Drinking Water Act*, passed in December 2002. Subsequent to our audit, in May 2003 new regulations were enacted to support this legislation. The regulations increase the number of waterworks covered by the Act and set out specific sampling and testing requirements for each waterworks type. Future initiatives will be necessary to address many of the remaining recommendations of the Walkerton Report, in particular, those calling for protection of Ontario's water at source (that is, prior to being processed by waterworks facilities).

Drinking Water Information System (DWIS)

Since 2000, the Ministry has been developing a Drinking Water Information System (DWIS) to support its new monitoring and reporting requirements. DWIS was designed to allow the electronic submission of water quality test results to improve timeliness and reduce re-inputting errors. It also partially addressed a number of Justice O'Connor's recommendations calling for improvements to the Ministry's information systems. In 2001, the Ministry launched an interim Web-based application to register all waterworks and receive water-sample test results electronically from laboratories servicing them. This interim application was to be replaced in March 2002 by the full version of the new DWIS, an Environet application that would provide additional features. For simplicity, we refer to both the interim and the planned system as DWIS. The Ministry had spent approximately $6.9 million to develop this system at the time of our audit.

By October 2002, the Ministry did implement significant components of the new system. DWIS can now register large waterworks, accept their quarterly reports, and record their Adverse Water Quality Incidents (AWQI). At the time of our audit in March 2003, however, key components of DWIS remained to be implemented. The Ministry had not completed the registration of all smaller waterworks and was still working to complete the fully integrated DWIS application. Perhaps more importantly, reporting tools to help management track and summarize test submissions for regulatory non-compliance were still under development.

The DWIS database, which contains all registered waterworks and their reported water-sample test results, has great potential to help ministry inspectors plan and prioritize their work of ensuring that waterworks facilities are operating properly. Summary reports could pinpoint which waterworks present the greatest health risks for Ontarians. Examples of reports that could be generated are: waterworks that are submitting significant numbers of exceedances or not submitting test results; facilities that are not meeting the frequency requirements established by regulation or not submitting reports on time; and laboratories that do not follow proper testing procedures, that are not accredited for the tests they are performing, or that are not properly communicating AWQI to all required parties.

DWIS is also used to record basic profile information on all registered waterworks; however, we found some of the database records to be inaccurate. For example, we found 50 waterworks registered incorrectly in the system and several with inaccurate profile information.

Recommendation

To ensure that the quality of Ontario's drinking water is properly monitored and that appropriate inspection and other follow-up action is taken on a timely basis when necessary, the Ministry should:

- **complete the development of the Drinking Water Information System (DWIS) as soon as possible;**
- **explore ways to use DWIS and its data to generate reports that would help inspectors identify and prioritize candidates for inspection and summarize waterworks regulatory compliance; and**
- **improve validation procedures to ensure all waterworks records in DWIS are accurate.**

Ministry Response

The Ministry acknowledges the importance of completing the development of the Drinking Water Information System (DWIS). DWIS development has progressed considerably since the audit.

The Ministry is committed to ensuring that the transition to DWIS is done effectively and efficiently, while protecting public health. The Ministry is using existing systems to discharge its drinking water responsibilities until DWIS is fully operational. Recent investments in both human and financial resources will ensure the full operation of manual systems while DWIS is being completed.

The Ministry acknowledges the importance of using DWIS to identify and prioritize candidates for inspection. The Ministry has made a strong commitment to inspection and enforcement as a key part of its approach to manage drinking water. The Ministry annually inspects 100% of all municipal water systems that serve over 80% of the population of Ontario. In addition, the

Ministry conducts one unannounced inspection of municipal water systems for every three proactive inspections.

The Ministry will continue to explore ways to use DWIS as part of its overall risk assessment processes to help inspectors identify and prioritize candidates for inspection and summarize waterworks regulatory compliance.

The Ministry ensures the waterworks records held in DWIS are accurate by conducting Quality Assurance/Quality Control on all waterworks profile information received from waterworks by reviewing data against other ministry databases and contacting waterworks to resolve any discrepancies or obtain missing data.

Once fully operational, DWIS will allow for further improvements to data accuracy and cross-checks in the maintenance of waterworks profiles. The Ministry will require waterworks to use "smart forms" to submit profile information—these forms have a built-in capacity to conduct primary validation of data. Ministry staff will continue to review all data and conduct secondary validation as necessary (for example, by contacting waterworks to resolve discrepancies).

Submission of Water-Sample Test Results

All waterworks are required to submit water samples at regular intervals to an accredited laboratory to test for the presence of many chemical or organic substances. The laboratory then submits the test results electronically to the Ministry via DWIS. We found that DWIS was unable to identify whether all waterworks were submitting these required sample test results. Accordingly, we used data-extraction procedures and our results indicated that while municipal waterworks generally did submit samples, the Ministry had never obtained test results from 300 of the 1,476 registered non-municipal waterworks. The Ministry followed up on and resolved 63 of these 300 waterworks; however, the remaining 237 were still being reviewed at the conclusion of our audit fieldwork.

Furthermore, the regulations of the *Ontario Water Resources Act* specify a minimum frequency of testing on certain high-risk substances, such as *Escherichia coli* (*E. coli*) bacteria and fecal coliform. We performed additional data-extraction work to summarize all test results submitted since DWIS became operational and found that for 612 (approximately 27%) of the registered waterworks, the Ministry did not obtain the minimum number of water samples for these two substances.

Recommendation

To enhance its ability to respond to water problems promptly, the Ministry should improve controls to ensure all waterworks submit their water-sample test results and compliance reports in accordance with regulatory requirements.

Ministry Response

The recommendation is fully consistent with the Ministry's compliance objectives. One hundred percent of quarterly test-result reports from municipal water systems that serve over 80% of the population are tracked and followed up on. In terms of recent improvements, Drinking Water Information System reporting to identify waterworks and laboratories that do not supply required information to the Ministry has now been completed. These compliance reports, which were not available at the time of the audit, have significantly increased the Ministry's oversight powers by automatically notifying ministry inspectors of waterworks and laboratories that are not submitting sample test results and reports as required by regulations.

EXCEEDANCES AND ADVERSE WATER QUALITY INCIDENTS

A water sample is considered an exceedance whenever it contains more than the maximum acceptable concentration limit for substances as specified by the *Ontario Water Resources Act* regulations. Treated-water exceedances are further classified as Adverse Water Quality Incidents (AWQI) if they relate to potentially serious health concerns. Ministry policy is to follow up on all AWQI to determine their cause, to ensure appropriate corrective action is taken, and to notifiy the public where necessary (such as an advisory to boil water).

Given the increased number of facilities now requiring monitoring, the past compliance problems with many of them, and the available inspection resources of the Ministry (see "Inspections and Management Information Systems" later in the report for more information), a good system to plan and prioritize follow-up activity is critical. While we noted significant numbers of reported water quality problems flagged in DWIS, the system did not provide sufficient information to help ministry staff deal with these problems effectively. Specifically:

- DWIS reports did not distinguish AWQI from other exceedances. AWQI are considered the most significant type of exceedance and demand immediate investigation and resolution because of the potential health risks associated with the substances in question. Therefore, the system should highlight AWQI exceedances.
- Waterworks and laboratories submit both raw-water (untreated or source) and treated-water (processed and ready for distribution) test samples into DWIS. Raw-water exceedances may not be indicative of quality problems if treatment removes unwanted substances. At the time of our audit, DWIS reports did not distinguish between raw- and treated-water exceedances separately. Also, the system did not have sufficient edit controls to reject obvious conflicting test results, such as where samples were reported as "distributed" or "treated" even though they had been taken from an "untreated" sample location.

- In our sample testing of the maximum acceptable concentration limits maintained in DWIS, we found that the system had not always been updated when new or amended regulatory standards came into effect. For example, the acceptable concentration limits for uranium and bromate were amended in July 2002, but this information had not been uploaded onto DWIS. If updates are not kept current, DWIS cannot accurately flag results where acceptable concentration levels have been exceeded.

Once we brought a number of suspect AWQI issues to its attention, the Ministry quickly investigated and found that most were raw-water samples rather than treated-water samples (that is, water for drinking). Others were older AWQI that had not been properly reported by a few laboratories. However, our concern is that future incidents could occur and not be properly investigated without improved DWIS reporting capabilities.

Because of the difficulties with existing DWIS reports, we used computer-assisted techniques to extract only treated-water exceedances from the database. As the following table summarizes, many waterworks continue to report exceedances including the more serious AWQI. Although relatively infrequent (less than 1%) in comparison to the total samples in the DWIS database, our data extraction identified 6,725 exceedances over the past two years. Of these, 3,181 were classified as AWQI.

Analysis of Water-Sample Test Results Submitted to the Ministry

Time Period	Test Results Received	Waterworks with Exceedances	Exceedances	AWQI[1]
2001	555,544	376	2,491	1,331
2002	1,230,474	850	3,878	1,515
Jan–Feb 2003	115,209	171	356	335
Total	**1,901,227**	[2]	**6,725**	**3,181**

[1] The AWQI figures include incidents relating to *E. coli*/fecal coliform, total coliform, heterotrophic plate count (HPC), background coliform, and sodium.

[2] No total is provided to avoid double counting waterworks that had exceedances in more than one year.

Source of data: Ministry of the Environment

Recommendation

To improve its ability to investigate and resolve water problems promptly, the Ministry should:

- **enhance the existing system to highlight all Adverse Water Quality Incidents for management attention to ensure timely follow-up action; and**

- **promptly update substance concentration limits to reflect new and amended standards.**

Ministry Response

The Ministry takes all Adverse Water Quality Incidents (AWQI) very seriously and has systems in place to respond. The Ministry uses a science-based framework for classifying AWQI as high or low risk. Where a high-risk problem has been identified, the Ministry responds with immediate (24/7) on-site inspectors who undertake the appropriate response. To better ensure all high-risk AWQI are responded to as soon as possible, the Ministry will develop Environet reports that highlight AWQI. In the case of low-risk AWQI, the Ministry has established protocols for staff to use in determining the appropriate response.

The recommendation to update substance concentration limits promptly is consistent with the Ministry's approach. The Ministry has put procedures in place to ensure that new standards, once brought into effect through a new or amended regulation, will be input into the Drinking Water Information System on a timely basis.

REPORTING OF ADVERSE WATER QUALITY INCIDENTS

The *Ontario Water Resources Act* regulations require laboratories and the waterworks owners to report any AWQI immediately to the local medical officer of health and the Ministry. These notifications, which must be by telephone to live persons, are in addition to the requirement to submit all sample results electronically into DWIS. Upon receiving such notification, ministry staff must investigate the incident to ensure that all AWQI are properly resolved.

Our data-extraction testing identified several waterworks with significant numbers of AWQI. We investigated what follow-up actions had been taken on these incidents and concluded that the Ministry needed to improve its AWQI monitoring and tracking procedures:

- Our testing indicated that not all laboratories were notifying the Ministry as required when AWQI occur. For example, for one of our sample waterworks, the Ministry was not aware of 31 out of the 46 AWQI that were identified in DWIS, since the system did not generate an exception report from the electronically submitted data.
- Conversely, we found instances where laboratories had reported AWQI to the Ministry in accordance with the verbal notification requirements but did not submit the sample results electronically into DWIS. We also noted instances where AWQI were attributed to the wrong waterworks. A reconciliation of the verbal AWQI notifications and the submitted water-sample results would help ensure that all AWQI have been properly investigated.

- After laboratories report AWQI to the Ministry, DWIS is used to track proper notification of the incident to all required parties. However, DWIS is not used to record follow-up action, corrective orders issued, or incident resolution. Inspectors document these efforts on a province-wide system that is not currently linked to the suite of Environet applications. Since these functions are not integrated, the Environet system cannot produce reports that allow management to easily monitor whether all AWQI are being addressed.

Recommendation

To ensure that all serious water problems are corrected, the Ministry should consider incorporating a follow-up reporting/resolution module within the Drinking Water Information System that would provide information to management about incident resolution for each Adverse Water Quality Incident.

Ministry Response

Information about incident resolution for each Adverse Water Quality Incident (AWQI) is currently contained in a province-wide system. When an AWQI occurs, the Spills Action Centre creates an incident report. The information will then be sent automatically to the proper district office for follow-up activities, and the resolution for the incident is recorded. The new Drinking Water Systems Regulations effective May 2003 make it mandatory that a report be submitted to the Ministry for every AWQI no later than seven days after the issue has been resolved. The Ministry uses both Environet and non-Environet systems in a comprehensive management information system. The Ministry is developing a strategy that will assist in meeting the longer-term solution of full integration of both Environet and non-Environet systems.

HAZARDOUS WASTE

More than 2 million tonnes of hazardous waste are generated in Ontario every year. Much of this waste must be transported to approved treatment facilities located throughout the province. Transporting waste entails the risk of spills and seepage that could cause considerable environmental damage. We noted that in its recent inspection sweep of hazardous waste generating and processing facilities, the Ministry found compliance problems with all 22 facilities inspected. For instance, unapproved handling or treatment of waste occurred at 95% of these facilities. Additionally, inspectors found six hazardous-waste generators that had failed to register with the Ministry.

Hazardous Waste Information Network (HWIN)

Ministry regulations require tracking documents called manifests to be used to record all hazardous waste movement in the province. Each waste generator, carrier, and receiver completes separate parts of a manifest, and both the generator and the receiver must submit manifest copies to the Ministry. There are approximately 225,000 hazardous waste movements annually.

In late 2001, the Ministry began developing an Environet application known as the Hazardous Waste Information Network (HWIN). HWIN would replace the previous Hazardous Waste Information System (HWIS) and was designed to eliminate paperwork and reduce processing errors by enabling the electronic submission of both manifests and fees. The HWIN system was implemented in February 2002 and the Ministry had spent $4.1 million on this system at the time of our audit.

Since a key goal of HWIN was to move to an electronic-manifest system, it was developed without the capability to support paper manifests. However, this lack of functionality has proven problematic. All three parties to a hazardous waste movement transaction—the generator, the carrier, and the receiver—must be equipped to handle electronic manifests before the HWIN system can be used. The result has been minimal use of the new system.

In its first year of operation, only 1,885 (less than 1%) hazardous waste movement manifests were processed through HWIN. The rest were still handled by the paper-manifest system. Accordingly, few of the efficiency goals for the HWIN system have been achieved and both systems must be maintained to handle all manifests properly. At the time of our audit, the Ministry was addressing this problem through a project to develop a paper-manifest component within HWIN.

As well, at the time of our audit, the HWIN system had few analysis and reporting capabilities. For example, it could not produce summary reports of the generation and movement of hazardous waste, even though such benefits were cited in the Ministry's business case for the system. Furthermore, it did not generate reports that would highlight possible inspection candidates. In fact, we found the former HWIS to have a superior reporting capability. Unlike the present system, HWIS could produce reports that showed the disposal history of a specific generator or the total amount of waste moved in a given timeframe for a specific generator or receiver.

Recommendation

To ensure that all hazardous waste movements are properly monitored to minimize the risk to the public, the Ministry should:

- **develop and deliver an ongoing incentive, conversion, and communication strategy to promote the adoption of electronic manifests by the hazardous waste industry; and**

- **develop Hazardous Waste Information Network analytical and reporting tools that provide summary information related to the generation and movement of hazardous waste and help identify potential problems warranting follow-up.**

Ministry Response

The recommendation is consistent with the Ministry's current approach. The Ministry has initiated a "Hazardous Waste Information Network (HWIN) Outreach" strategy to increase and enhance use by clients, thereby improving the quality and quantity of information on HWIN. This initiative will provide information on the electronic registration, manifest, and fees systems. It will provide an open forum in which HWIN users can identify problems with the systems and obtain responses from the Ministry. As well, it will allow users and the Ministry to identify and develop mutually beneficial options to add value to the HWIN system. The Ministry is also developing a supplemental training package about the HWIN systems for users that is based in part on feedback from hazardous waste generators, carriers, and receivers.

When resources become available, the Ministry intends to build into HWIN analytical and reporting tools that will, for example, provide summary information on the generation and movement of hazardous waste. Until HWIN has this capacity, the Ministry will continue to obtain such information from the present Hazardous Waste Information System.

REGISTRATION OF HAZARDOUS WASTE FACILITIES

Every year, the Ministry requires all generators to register in HWIN by submitting details of their facilities and the composition of the waste that they are generating. All carriers and receivers are also requested to register voluntarily with the Ministry. Registration ensures that the Ministry has a complete inventory of all hazardous waste facilities.

All generators must use ministry-approved carriers and receivers for their hazardous waste. Certificates of approval are issued for this purpose and the ministry staff use HWIN to track the approved waste types that each carrier and receiver can handle.

The due date for annual re-registration is February 15. However, we noted that the majority of generators fail to register on time, and the Ministry makes little effort to follow up on delinquent registrants. For example, although approximately 22,000 generators eventually registered with the Ministry in 2002, only 7,986 had registered by the February 15 due date. The problem continued in 2003, with only 9,368 generators registered by the February 15 due date. Without complete industry information, some facilities may escape inspection and therefore compromise the Ministry's efforts to protect the ecosystem and human health.

Although relatively infrequent in comparison to the total number of hazardous waste movements, the HWIN system had flagged a number of unauthorized waste movements since its introduction last year. However, we found no evidence of follow-up action for any of these movements. For example, we noted 1,697 (less than 1%) hazardous waste movements by unregistered generators, and 3,720 (less than 2%) hazardous waste movements for which the generator did not have ministry approval for the type of waste moved. Carriers and receivers were also moving waste that they were not authorized to handle.

Recommendation

To ensure that all hazardous waste is moved in accordance with regulatory standards, the Ministry should:

- **ensure all active hazardous waste generators are registered;**
- **investigate hazardous waste movements initiated by unregistered generators; and**
- **investigate hazardous waste movements where the generator, carrier, or receiver is not authorized to handle the waste type.**

Ministry Response

Under current regulation, the requirement to register is the sole responsibility of the generator. To reinforce this requirement, the Ministry has provided up to three reminders to hazardous waste generators known to the Ministry.

With respect to investigating hazardous waste movements by unregistered generators, the recommendation is consistent with the Ministry's current approach. The Ministry has now developed a comprehensive and integrated program for monitoring hazardous and liquid industrial wastes, from their point of generation through to their ultimate disposal, of which the Hazardous Waste Information Network is one component.

In order to deal with specific compliance issues related to the hazardous waste industry, the Ministry's Environmental SWAT (originally Soil, Water and Air Team) has implemented a targeted compliance strategy over the past 18 months. During that time, SWAT conducted widespread inspection sweeps of hazardous waste transfer and processing facilities, which included examining both generator registration and receiver documentation. In addition, SWAT has conducted numerous inspections of hazardous waste carriers to, among other objectives, verify hazardous waste manifests.

AIR

Air pollution is a serious threat to our health, environment, and economy; in Ontario, over 10 million tonnes of airborne contaminants are emitted annually. The Ministry classifies air issues as global, regional, or local. Global air issues include dealing with emissions causing climate change that increases average global temperatures or results in stratospheric ozone depletion. Regional air issues include acid rain from the release of sulphur dioxide and nitrogen oxides, or smog from the emission of particulate matter, sulphur dioxide, nitrogen oxides, or volatile organic compounds. Local air issues include air toxicity from elevated local concentrations of compounds, such as metals, volatile organic compounds, soiling, or odours.

In May 2000 and May 2001, respectively, the government introduced new regulations under the *Environmental Protection Act* to increase public accountability for all air pollution sources and to improve monitoring and disclosure of environmental pollutants. The first regulation, Electricity Generation—Monitoring and Reporting, covered the electricity sector, and the second regulation, Airborne Contaminant Discharge Monitoring and Reporting, widened the requirements to cover many other industrial sectors. The second regulation (O. Reg.127/01) requires all industrial (including the electricity sector), commercial, institutional, and municipal facilities subject to the regulation to monitor and report on their emissions annually for any of the more than 350 airborne contaminants, should their respective annual thresholds be exceeded. Smog season (May 1 to September 30) reporting is required for those criteria air contaminants if their emissions exceed their respective annual thresholds. For facilities that maintain large discharge units, quarterly reports must also be submitted.

Ontario Air Emission Registry (OnAir)

OnAIR is the Environet system designed to provide the public with timely access to information on air emissions data reported by the facilities under O. Reg.127/01. These data support the Ministry's air quality initiatives and development of future environmental programs. Emissions data in OnAIR replaced those collected under the previous voluntary survey reporting program that had a low response rate. OnAIR allows facilities to submit emission reports electronically to the Web site. The facilities are responsible for the accuracy of their reported emission data. The Web site has been operating since May 2002. The Ministry had spent approximately $3.3 million to develop the system at the time of our audit.

We provided our observations and made recommendations on the Air Emission Registry (OnAir) to the Ministry and have received satisfactory management responses to our recommendations, which included ministry action plans to address them. Our key recommendations were that the Ministry should:

- complete the inventory of the facilities that should be reporting air emissions;
- verify if facilities are approved to emit the substances they report on; and
- periodically verify the accuracy of data submitted.

We will follow up on the Ministry's action plans when sufficient time for implementation of our recommendations has elapsed.

INSPECTIONS AND MANAGEMENT INFORMATION SYSTEMS

Physical inspections are critical in assessing compliance with legislative requirements, and good management information systems can help inspectors prioritize their activities by identifying areas of high risk. In the 2002/03 fiscal year, the Ministry had a staff of 261 environmental officers—30 were assigned to the SWAT inspection group and 231 worked out of five regional offices. Under the Ministry's new policy, the regional staff are to inspect all municipal waterworks facilities annually. As well, they inspect many other areas of environmental importance to Ontarians, including air facilities, refrigeration/ozone-depleting sites, pesticides, industrial biosolids, municipal biosolids, septage hauler/disposal facilities, municipal sewage treatment plants, sub-surface sewage disposal systems, PCB sites, and both open and closed waste disposal sites. The Ministry is also developing an inspection program for laboratories that conduct water-sample tests.

During our office visits to different areas, we interviewed a number of regional inspectors who conduct inspections of water, hazardous waste, and air facilities. None used the Environet applications or their data. Notwithstanding, when we discussed the type of data available from Environet, the inspectors commented that this data could be useful in identifying appropriate inspection targets.

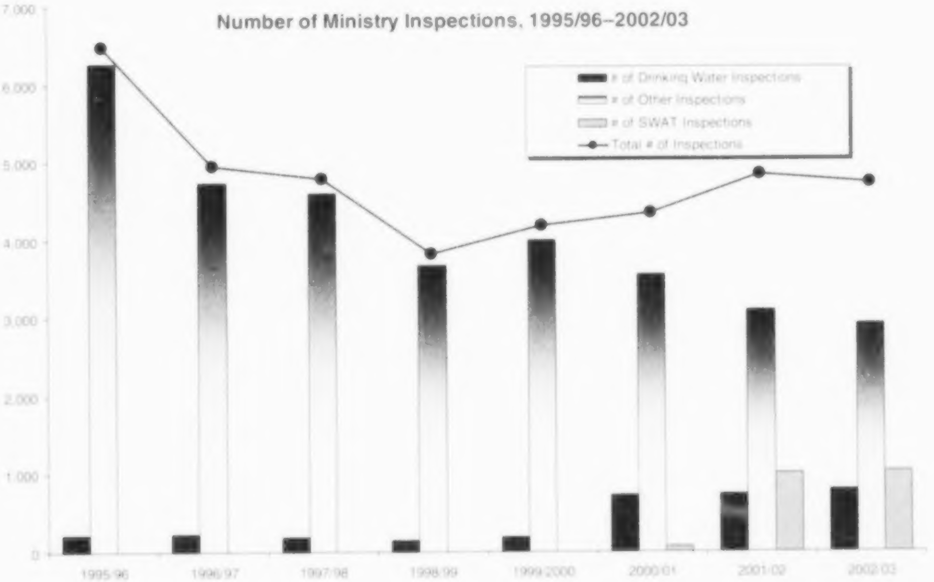
We have made many comments about the Ministry's inspection efforts in the past, dating back to the 1980s. For example, in our 1994 audit of water- and sewage-treatment facilities, we noted that the drinking water facilities with more significant compliance problems were mainly the smaller ones and recommended increased surveillance. In our 2000 audit of the Operations Division, we recommended that the Ministry explore options to increase its inspection coverage. Since then, the Ministry has introduced the SWAT team to focus on priority areas across the province and in January 2001 it hired another 25 water inspectors to increase coverage of this critical sector.

The SWAT group is a province-wide team that uses a risk-assessment framework to target specific sectors based on past instances of non-compliance and the potential for major effects to human health or the environment. Since its inception in September 2000, the SWAT team has conducted more than 2,100 inspections in sectors such as electro/metal-plating, hazardous waste transfer and processing, industrial waste haulers, pesticide applicators, and auto-body and repair shops.

The SWAT group makes use of an Environet application—the Computer Assisted Mobile Enforcement Office (CAMEO) system—that was introduced in May 2002 to provide them with the ability to access and maintain inspection information while in the field. In addition to this mobile capability, CAMEO integrates several features that include a case management module, time tracking, data analysis, and reporting. The Ministry had spent $2.8 million to develop the system at the time of our audit. We reviewed the CAMEO application and found that it was working well.

The result of the preceding initiatives is an increase of 13%, from 4,182 total ministry inspections in 2000 to 4,734 in 2002. As well, in November 2002 the Ministry developed a new Municipal Drinking Water Inspections Protocol to address many of the Walkerton Report recommendations.

There are still significant concerns with inspection coverage, however. For example, the following chart, which excludes vehicle emission inspections, shows that the new policy of annually inspecting all municipal waterworks has had a negative impact on the Ministry's abilities to cover other environmental sectors. As well, even after accounting for the new SWAT group, inspection activity for 2002/03 is currently at 73% of 1995/96 levels. The Ministry has informed us that this can be attributed to the fact that the inspections are now more compliance-related and more comprehensive, and therefore they take longer to carry out than in the mid-nineties. Notwithstanding, this decrease in the number of inspections is worrisome because the number of facilities now covered by the new regulations has increased and will continue to do so.

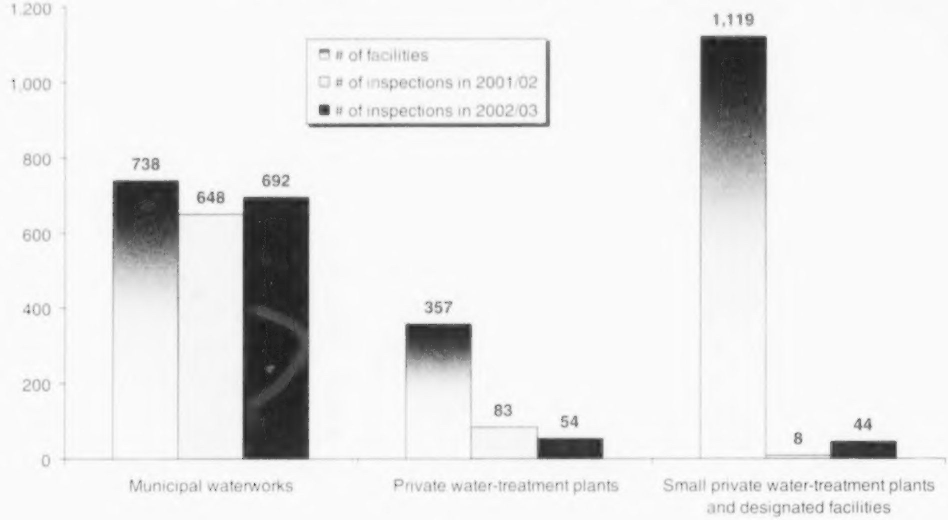


Source of data: Ministry of the Environment

Although inspection coverage of smaller waterworks facilities is currently minimal, there has recently been a renewed focus on these facilities. Registration and the submission of sample tests are now required from many previously unregulated, private, smaller waterworks and designated facilities. However, to date the Ministry has not established any proactive inspection frequency requirements for them. Ontario's Environmental Commissioner also expressed concern in his 2002 annual report that the Ministry did not inspect these facilities enough. He stated that they often serve susceptible populations, such as seniors and children, who are less resistant to contaminants and who face higher health risks than the general population. As the following chart summarizes, in 2002/03 the Ministry conducted

54 inspections on the 357 non-municipal, private water-treatment plants and 44 inspections on the 1,119 small, private water-treatment plants and designated facilities.

Waterworks Inspection Coverage, 2001/02–2002/03



Source of data: Ministry of the Environment

Our analysis of ministry records also indicates that—except for the SWAT team that now conducts about one-quarter of all inspections—total inspection coverage is actually dropping.

The following table illustrates this point. Since 1999/2000 the Ministry has increased the number of drinking water program inspectors by 57, bringing the total number of regional inspectors to 231 (an increase of 33%). However, over the same period, the number of inspections conducted actually dropped by 11% (from 4,182 to 3,707). Given the increased number of inspectors, this drop represents a decrease from an average of 24 inspections completed annually per regional inspector in 1999/2000 to 16 inspections on average last year. The Ministry informed us that this can be attributed to the increase in length of time it now takes to conduct inspections. For example, a drinking water system inspection takes more than twice as long to complete under the current inspection process.

Inspections Conducted by the Ministry

	SWAT		Regional Offices				Overall Total
	Inspectors	Inspections	Regional Inspectors	Water Inspections	Other Inspections	Total	
1999/2000	n/a	n/a	174	185	3,997	4,182	4,182
2000/01	30	78	180	718	3,552	4,270	4,348
2001/02	30	1,005	199	739	3,097	3,836	4,841
2002/03	30	1,027	231	790	2,917	3,707	4,734

Source of data: Ministry of the Environment

Another issue is how inspectors are allocated across the province. The Ministry divides the province into five regions. However, we noted that only 37 of the 231 inspectors were assigned to the province's central region, where more than 5 million Ontarians reside or almost half of Ontario's population. By contrast, the northern region, which serves fewer than 1 million people, has been assigned 39 inspectors. We saw no formal evidence or analysis that supported the allocation of inspectors by region. Such an analysis would include factors such as the number and size of facilities to be inspected and travel distances.

As stated earlier, inspectors are not currently using the Environet systems to plan or prioritize their work. We found that inspectors were not able to access the most accurate, complete, and timely information available, particularly regarding compliance history. Summary reports that use the information in Environet databases would improve the process of risk-based inspection planning; for example, reports to water inspectors could analyze past exceedances by facility, by seriousness, and by type. Accordingly, we urge the Ministry to accelerate the development of an Environet reporting application to provide the information that management and inspectors need.

Recommendation

To ensure inspection coverage is risk-based and that inspection resources are allocated most efficiently, the Ministry should:

- **develop Environet reports that analyze the state of Ontario's environment and compliance with its regulations so that inspection resources can be allocated based on the greatest risks to human health;**
- **re-assess waterworks inspection coverage to ensure more non-municipal waterworks are inspected; and**
- **complete the development of a regime for laboratory inspections to ensure testing standards are being met and all Adverse Water Quality Incidents are reported promptly.**

Ministry Response

The Ministry uses reports and information generated from across all program areas and databases, not just from Environet systems, to inform its work-planning and priority-setting activities. The Ministry recognizes that improvements to the resource allocation process are likely to come from a better ability to collect, integrate, and analyze data, particularly through our Environet strategy. As a first step, the Ministry is developing an information technology strategy to bring many drinking water databases together into one Environet-compatible network and data model.

In addition to the Drinking Water Information System, the Ministry has received funding to develop systems such as the Laboratory and Waterworks Inspection System, which will contribute significantly to inspection and compliance functions. When complete, this system will electronically assess waterworks

and provide a grading to identify and prioritize candidates for inspection. All aspects of the Ministry's inspection and compliance strategy work together to target waterworks that may be non-compliant, most particularly in areas related to the protection of human health.

Municipal drinking water systems provide drinking water to more than 80% of Ontario's population. The Ministry now has a regulatory obligation to inspect all municipal drinking water systems on an annual basis. It has and will continue to fulfill this obligation. For non-municipal waterworks, the Ministry has now developed a structured risk-based program that responds to health-based Adverse Water Quality Incidents or complaints as necessary to protect public health and safety.

The Ministry is making progress on the development and implementation of its laboratory licensing and inspection program. The Ministry's inspection program (which ensures compliance with regulatory requirements) will be operational by October 1, 2003. Ontario's accreditation program, which focuses on technical proficiency in the laboratories doing the testing, has been operational since 2000.

3.09–Public Health Activity

BACKGROUND

The Ministry's Public Health Branch, under the direction of the Chief Medical Officer of Health, is responsible for administering the Public Health Activity. The primary legislative authority governing the Activity is the *Health Protection and Promotion Act*, which provides for the organization and delivery of public health programs and services, the prevention of the spread of disease, and the promotion and protection of the health of the people of Ontario. Other legislation that plays a role in the Public Health Activity includes the *Immunization of School Pupils Act*, the *Day Nurseries Act*, and the *Tobacco Control Act, 1994*.

Public health services are primarily delivered through 37 local health units across the province. The *Health Protection and Promotion Act* provides the authority for establishing the local health units, which serve populations ranging in size from approximately 37,000 to 2.5 million. Each health unit is governed by a local board of health and administered by a local medical officer of health who reports to the board of health. A board of health may be an autonomous corporation with representation from its constituent municipalities, or it may be part of a regional municipality.

During the 2001/02 fiscal year, the Ministry provided approximately $222 million in transfer payments to local health units, primarily for the delivery of health programs and services mandated by the Ministry. Each local health unit is responsible for the delivery of public health programs and services in accordance with applicable legislation. In addition, local health units deal with emerging public health issues such as *E. coli* outbreaks, West Nile virus, and Severe Acute Respiratory Syndrome (SARS).

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit of the Public Health Activity were to assess whether:

- the Ministry's expectations for public health were being met in a cost-effective manner; and
- the Ministry had adequate processes in place to ensure that local health units were complying with applicable legislation and policies.

Our audit focused primarily on the monitoring and funding of local health units for mandatory programs and services, surveillance, and vaccine-preventable diseases. We also followed up on the current status of recommendations made in our 1997 audit of the Public Health Activity.

In conducting our audit, we reviewed relevant files and administrative policies and procedures, interviewed appropriate ministry staff, reviewed relevant literature, and researched the delivery of public health programs in other jurisdictions. While our audit focused primarily on the Ministry, we also visited a number of local health units to obtain their perspective on their responsibilities and surveyed the remaining local health units about specific activities.

Our audit, which was substantially completed in March 2003, was conducted in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances. The criteria used to conclude on our audit objectives were discussed with and agreed to by ministry management and related to systems, policies, and procedures that the Ministry should have in place.

Towards the end of our audit, the Ministry and health service providers were coping with an outbreak of Severe Acute Respiratory Syndrome (SARS). Since our audit fieldwork was substantially completed before this outbreak occurred, our audit did not include work in this area.

While the Ministry's internal audit branch had performed some audit work on the Public Health Activity, this work related to areas outside the scope of our audit and therefore did not affect our audit.

OVERALL AUDIT CONCLUSIONS

The Ministry did not have adequate procedures to ensure that its expectations for public health were being met in a cost-effective manner. The importance of knowing that local health units are meeting the Ministry's expectations for public health is significantly heightened in light of the emergence of new diseases such as West Nile virus and Severe Acute Respiratory Syndrome (SARS). The Ministry must be able to ensure that local health units respond quickly and properly to such diseases while continuing to minimize the health impact of existing diseases and continuing to provide other mandatory public health programs and services.

Many of the issues and concerns raised in this audit were also identified in our 1997 audit of public health. In particular, we were concerned that the Ministry had not analyzed the extent to which individuals received differing levels of public health services or were exposed to greater levels of risk depending on where in Ontario they lived. Specifically, the Ministry had not analyzed whether funding for mandatory health programs and services was based on assessed need or on a jurisdiction's commitment or capacity to pay for the programs and services. In this regard, 2002 per capita funding for mandatory health programs and services, while averaging $37 for the province, ranged from approximately $23 per capita to $64 per capita among the 37 local health units.

In addition, although the Ministry had introduced a questionnaire whereby local health units self-reported on their performance, the Ministry had conducted virtually no regular assessments of local health units in the last five years to determine whether the health units were complying with the guidelines for mandatory programs and services. Such assessments were recommended in the *Report of the Walkerton Inquiry: The Events of May 2000 and Related Issues* (Part One of the Walkerton Report). We also noted the following:

- None of the 33 local health units reporting information to the Ministry had conducted the necessary inspections of all of the food premises within their jurisdiction. In fact, 13 of the 33 local health units had only conducted the required inspections for less than 50% of the high-risk premises in their jurisdictions. Four local health units did not report their information.
- Seventeen out of 25 local health units that provided information to the Ministry reported that less than half of the high-risk food premises in their jurisdictions had food handlers who had the required training to help recognize and prevent risks associated with food-borne illnesses.
- In 2001, local health units only inspected approximately 60% of Ontario's tobacco vendors to verify compliance with the provisions in the Mandatory Programs and Services Guidelines regarding sales to people under the age of 19. In addition, only 60% of vendors that had been warned or charged for non-compliance within the previous two years received the required semi-annual inspections.
- Local health units reported that, in 2001, only 65% of individuals identified by Citizenship and Immigration Canada as requiring medical surveillance for tuberculosis were successfully contacted and managed in accordance with the Ministry's Tuberculosis Control Protocol.
- Federal guidelines state that immigrants with inactive tuberculosis who are placed on medical surveillance should receive a complete medical examination, including an x-ray, after arriving in Canada. These individuals are required to obtain a letter from a local health unit verifying their compliance with federal requirements. However, according to the Ministry, the federal government only requires that the individuals contact a local health unit. Nine of the 21 local health units that provided letters indicated that they would do so as soon as the individual contacted them, regardless of whether they had had a physical examination or x-ray. Except in rare circumstances, an immigrant cannot be forced to have a physical examination or x-ray. Therefore, issuing letters based on contact alone reduces a local health unit's ability to ensure compliance with federal guidelines and places the community at increased risk.

- The limited information the Ministry had with respect to immunization indicated that at least 14% of children had not had all required vaccinations by age seven.
- The Ministry lacked accurate and timely information on communicable diseases, vaccine-associated adverse events (that is, adverse events such as illnesses occurring as a result of vaccinations), and immunization, limiting its ability to identify and take the necessary action to mitigate potential problems.
- The Ministry had not yet developed a process to ensure that all local health units were conducting risk assessments and taking appropriate action to decrease the incidence of West Nile virus.

DETAILED AUDIT OBSERVATIONS

FUNDING

The *Health Protection and Promotion Act* (Act) requires municipalities within the jurisdiction of a local health unit to cover the costs incurred by the local health unit in fulfilling its legislated responsibilities. The Ministry provides grants to help cover the costs of mandatory health programs and services (the mandatory programs). The Act authorizes the Ministry to develop and publish guidelines for the mandatory programs and requires each board of health to comply with the guidelines.

In our *1997 Annual Report* we had recommended that, "To ensure that funding for all mandatory public health programs is allocated equitably, the Ministry should expand the use of indicators of service costs and of the relative health needs of communities." Allocating funds equitably—that is, based on assessed need—helps ensure that individuals with similar needs have access to similar services, regardless of where they live in the province.

At the time of our 1997 audit, the Ministry had just initiated an "equity funding strategy" that was used then to ensure that any reduction in funding to public health units was applied in a rational manner using indicators of community health needs and service costs. At that time, the cost of the mandatory public health programs and services was shared by the Ministry and municipalities. Depending on the program, the province's share ranged from 40% to 100% of the cost. In 1998, through Local Services Realignment, the funding and responsibility for the delivery of mandatory public health programs and services was transferred to municipalities. Since 1999, the Ministry has generally funded 50% of each local health unit's costs, up to a maximum of 50% of the health unit's locally approved budget for providing the mandatory programs and services detailed in the Ministry's guidelines.

In 2001, the Public Health Branch established a Funding Allocation Formula Working Group "to determine a methodology for allocating provincial grants to boards of health for the delivery of mandatory public health programs and services." In its September 2001 report, the Working Group, which included representatives from the Association of Local Public Health Agencies and the Association of Municipalities of Ontario, stated that "the concept of funding based on demographic and health status is relatively well established in the health sector of other jurisdictions." The Working Group recommended developing a model consisting of three funding components: core (or base), per capita, and needs, noting that "the implementation of an equitable funding model is difficult when there are two funders that operate under different rules." Under the current funding model, the province's contribution is dependent on the locally approved budget.

The Working Group also noted that, traditionally, provincial funding for public health has been allocated on the basis of cost-sharing of the locally approved board of health budget and that "consequently, provincial grants may be based not only on need, but also on local commitment to public health and capacity to pay for services from the municipal tax base." The Working Group noted that in 2000, there was "slightly more than a three-fold difference in per capita funding between the lowest and highest funded boards." In our *1997 Annual Report*, we also had noted that "over time, significant variations in funding have occurred, with per capita funding for some boards being three times the rate of that for other boards."

A recent analysis performed by the Ministry identified that significant variations in per capita funding for the mandatory programs still exist among local health units. While the 2002 average per capita rate for the province was approximately $37, the rate ranged from approximately $23 to $64 among local health units. At the time of our audit, the Ministry had not analyzed whether these variations had resulted in differing levels of services for individuals with similar needs depending on where in Ontario they live. We also noted that public health programs in unorganized territories, which are 100% funded by the province, receive approximately the same amount of funding as they did in 1991 ($3 million). The Ministry has noted that in "most areas of the north, funding for unorganized areas, on a per capita basis, is well below the per capita rate in areas covered by municipalities."

The Ministry also had not defined what constitutes an "eligible expenditure"—in particular, which administrative and overhead costs are eligible—beyond the requirement that eligible expenditures be incurred to comply with the Mandatory Programs and Services Guidelines.

While not required to do so, most of the local health units submitted to the Ministry in their budgets a breakdown by specific mandatory program or service. At year end, local health units are required to submit audited financial statements, but again were not required to provide a breakdown by mandatory program or service. In our current audit, we noted that there were some significant variances in the proportion of local health units' funding allocations spent on particular mandatory programs or services. For example, based on budget submissions for 2002, expenditures by local health units for the Vaccine Preventable Diseases mandatory program ranged from 5% to 21% of each health unit's funding for the mandatory programs. The Ministry had not investigated the reasons for these variances.

Recommendation

To help it meet its objectives for the Public Health Activity, the Ministry should ensure that individuals with similar needs and risks receive a similar level of service regardless of where in the province they live.

To help ensure that provincial funding is allocated on a consistent basis, the Ministry should provide clear guidance on what constitutes an eligible public health expenditure.

Ministry Response

The Ministry notes that service and funding levels across the province are related to the current legislative and funding framework. However, the Ministry will conduct an analysis of the comparative risks and needs in relation to levels of service currently delivered throughout the province. Based on the results of the analysis, the Ministry will consider options, including modification to the legislative and funding framework in order to rectify any inconsistencies in service levels in Ontario.

The Ministry will further clarify definitions of eligible expenses to local health units as part of the roll-out of the new program-budgeting system.

COMPLIANCE WITH LEGISLATION AND GUIDELINES

The Mandatory Health Programs and Services Guidelines (Guidelines), which were last revised in December 1997, consist of three general standards and 14 program standards that set out minimum requirements for the mandatory programs. The general standards—dealing with equal access, health hazard investigation, and program planning and evaluation—outline considerations or activities to be undertaken in planning for the mandatory programs. The program standards—which are grouped under chronic diseases and injuries, family health, and infectious diseases—specify the minimum requirements "for each program in order to contribute to the achievement of stated, province-wide public health goals. These programs translate broad goal directions into objectives and targets and outline the activities that boards of health are required to undertake to achieve the stated objectives." At the time of our audit, we were advised that the Ministry was reviewing six of the program standards.

Program Objectives in the Guidelines

We noted several problems with the program objectives in the Guidelines. First, many of the objectives need to be updated. For instance, the Guidelines refer to the Ministry's 1998 "Determination of Tobacco Vendor Compliance Protocol," yet the Protocol was revised in

2000. In addition, some objectives still refer to a year 2000 target date. We also noted that some program objectives do not have specific targets. For example, one objective under the Prevention of Chronic Diseases program is to increase the proportion of smoke-free homes by 2010; however, the objective does not include a target to be reached. We further noted that, in some instances, the Ministry did not have reliable data that could be used to determine whether boards of health were meeting objectives on a timely basis. For example, the Vaccine Preventable Diseases Program includes an objective to achieve, by the year 2000, coverage rates of 95% for the immunization of children against certain diseases by their second birthday. However, because the Ministry does not gather immunization information for all children by their second birthday, it can only determine whether the objective was met using data provided when children enter a licensed daycare facility or in many cases when children enter school—three years after their second birthday.

Assessment of Compliance

Under the Act, the Minister of Health and Long-Term Care may assess whether local health units are providing or ensuring the provision of health programs and services in accordance with the Guidelines. In addition, Part One of the Walkerton Report, released in January 2002 (the report was the result of the Walkerton Inquiry, established in June 2000 to investigate the water-borne *E. Coli* outbreak in Walkerton, Ontario), recommended that the Ministry conduct random assessments on a regular basis to ensure local health units are complying with the Guidelines. The report also stated that the Ministry should annually track trends in non-compliance in order to assess whether changes are required to the mandatory programs and whether resources require adjustment to ensure full compliance.

Ministry staff informed us that, since 1998, only one assessment of a local health unit had been undertaken and that in March 2003, the Ministry began limited assessments of mandatory program areas at five local health units.

When the Guidelines were revised in 1997, the Ministry estimated that it would take three years to achieve full compliance. In 1998, the Ministry initiated an annual Mandatory Programs Indicator Questionnaire (MPIQ), whereby local health units answered a series of questions related to the Guidelines. The Ministry uses their answers to assess whether program requirements are being met. At the time of our audit, the Ministry was in the process of reviewing the MPIQs covering the year 2001.

We questioned the Ministry's full reliance on the MPIQ as a basis for its assessment, as the MPIQ data consisted solely of local health units' self-reported answers and the Ministry did not have any procedures in place for verifying the reliability of the information reported. In this regard, in 2000, the Mandatory Programs Measurement Working Group, comprising representatives from the Public Health Branch and Ontario's Association of Local Public Health Agencies, recommended that the MPIQ be evaluated for its validity as a tool for assessing compliance with the mandatory programs. At the time of our audit, the recommended evaluation had not been conducted.

Based on its review of the completed MPIQs for the year 2000, the Ministry concluded that local health units were 78% compliant with the Guidelines. This was calculated by averaging the overall compliance rate for each of the MPIQ areas across the 37 local health units. However, we noted that this calculation was not a meaningful measure of compliance and was therefore not an indicator of the actual performance and overall effectiveness of public health programs across the province. Specifically, we noted the following weaknesses in the compliance calculation and the MPIQ itself.

- The Ministry calculated overall compliance without considering the relative size of individual health units (the population served by the largest local health unit is over 60 times that of the smallest health unit).
- Compliance was assessed in absolute, "either/or" terms, rather than taking into account degrees of compliance. For instance, one health unit was about 10% compliant in a mandatory program area while another was 70% compliant, yet both were rated equally non-compliant.
- The MPIQ did not elicit compliance data for all of the mandatory programs and services. For example, the Guidelines include an objective for a coverage rate of 95% for vaccinating children for hepatitis B by the end of grade 7, but the MPIQ did not address hepatitis B vaccination coverage rates.

Some local health units had taken the initiative of using other measurement tools that may warrant consideration by the Ministry. For instance:

- Fourteen of the 37 local health units have chosen to have their organizational and administrative functions—including program planning, implementation, monitoring, and evaluation—measured against the principles and standards that are peer-set by the Ontario Council on Community Health Accreditation. However, the Ministry was not receiving or requesting copies of the accreditation reports from participating health units. We noted that the Mandatory Programs Measurement Working Group also had indicated its support of accreditation as a validation of compliance with the mandatory programs.
- The Ministry and other stakeholder groups have jointly been conducting pilot projects on benchmarking various public health areas such as universal influenza immunization and the inspection of food premises.

The Ministry had not evaluated any of these initiatives to determine whether they effectively measure compliance with the Guidelines or whether they should be expanded to measure compliance across the province.

Full-time Medical Officer of Health Requirement

The *Health Protection and Promotion Act* requires local health units to employ the services of an appropriately trained medical officer of health. Part One of the Walkerton Report recommended that the Act be amended to require boards of health and the Minister to expeditiously fill any vacant medical-officer-of-health positions with a full-time medical officer of health. In December 2002, the following amendment to the Act received royal assent: "If the position of medical officer of health of a board of health becomes vacant, the board of health and the Minister, acting in concert, shall work expeditiously towards filling the position with a full-time medical officer of health." According to the Ministry, there is a national shortage of physicians with community medicine training to fill vacancies, and as of January 2003, there were eight boards of health without the mandated full-time medical officer of health. While there were individuals acting in the medical-officer-of-health position, according to the Ministry they may not have had all of the required qualifications for the position. At five boards, acting medical officers of health had occupied the position for over three years.

At the end of our audit, the Ministry was advertising to attract potential candidates. We were also advised that the Ministry has identified community medicine as a priority specialty for the Ministry's recruitment, retention, and retraining program.

Recommendation

To help ensure compliance with legislation and the Mandatory Health Programs and Services Guidelines, the Ministry should:

- **establish more valid measures for assessing the performance and overall effectiveness of public health programs and services delivered by local health units;**
- **periodically verify the reliability of the compliance information reported by local health units; and**
- **ensure that every local health unit has a full-time medical officer of health as required by legislation.**

Where local health units are using other measurement tools, such as accreditation, the Ministry should:

- **obtain any resulting reports and analysis; and**
- **assess whether any of these tools should be used by all local health units.**

Ministry Response

The Ministry will re-examine current measurement tools with the aim of implementing improvements to the performance measures.

Subject to funding approvals, the Ministry will undertake an assessment program in order to verify compliance information reported by local health units. In addition to the limited assessments undertaken in 2002/03, the Public Health Branch is currently undertaking an assessment in one local health unit.

The Ministry will continue its efforts to ensure that every local health unit has a full-time medical officer of health through promotion and expansion of the

Medical Officer of Health In Training bursary program and the national advertising campaign, subject to funding approval of the bursary program.

The Ministry will consult with local health units, the Ontario Council on Community Health Accreditation, and other stakeholders on the acceptability of accreditation information as a source of input for the Ministry's assessment of affected local health units.

FOOD SAFETY

The Guidelines state that the goal of the Food Safety program is "to improve the health of the population by reducing the incidence of food-borne illness." The objectives of the program are to ensure that food is prepared, stored, and served in a manner consistent with accepted public health practices and "to stop the sale or distribution of food that is unfit for human consumption by reason of disease, adulteration, impurity or other cause."

Inspections of Food Premises

The Guidelines require that local health units assess all food premises at least annually and determine their risk status (high, medium, or low) based on risk assessment criteria specified in the Ministry's Hazard Analysis Critical Control Point (HACCP) Protocol. Inspections are required at high-risk premises at least once every four months, at medium-risk premises at least once every six months, and at low-risk premises at least once a year. High-risk premises must also have an annual HACCP Protocol audit, which focuses on those steps in the food preparation process that can control or eliminate food safety hazards. Inspections focus on regulatory requirements such as basic sanitation.

In our *1997 Annual Report,* we recommended that the Ministry should determine whether local health units had fully implemented HACCP and take corrective action as necessary. The Ministry replied that it would be setting and monitoring program standards and would take action as appropriate to enforce the standards. In our current audit, we noted that, based on information reported to the Ministry for 2002, about 60% of local health units had completed less than half of the required annual HACCP Protocol audits. We also found that the Ministry had not reviewed the application of the HACCP risk-assessment criteria by the health units and therefore had no assurance that the assessed risk had been assigned to food premises in a consistent manner across the province.

Based on our review of information submitted to the Ministry by 33 of the 37 local health units, we found that no local health units were conducting 100% of the required inspections for premises in their jurisdiction. In fact, in 2002, for food premises that had been assessed as high risk:

- only six of the 33 local health units conducted the required inspections for more than 90% of the premises;

- 14 conducted the required inspections for from 50% to 90% of the premises; and
- 13 conducted the required inspections for less than 50% of the premises.

A similar pattern of inspection coverage had occurred for medium- and low-risk premises.

Recommendation

To help minimize the risk to the public of food-borne illnesses, the Ministry should ensure that local public health units are conducting the required inspections and Hazard Analysis Critical Control Point Protocol audits of food premises to ascertain whether food premises are complying with acceptable public health practices.

Ministry Response

The Ministry will include the food safety mandatory program in the health unit assessment program, subject to funding approval of the assessment program.

Food-handler Training

Another component of ensuring food safety involves the proper training of food handlers. Training assists food handlers in recognizing and preventing risks associated with food-borne illnesses.

In our *1997 Annual Report*, we recommended that the Ministry determine whether local health units had fully implemented food-handler training. In January 1998, the Ministry issued the Food Handler Training Protocol, which specified the circumstances in which a trained food handler must be in food premises at all times. The Guidelines require that local health units ensure that food-handler training courses are provided in accordance with the Protocol to food handlers in high- and medium-risk food premises. Training requirements were to be fully implemented by 2002.

The Ministry does not require the presence of trained food handlers at food premises of any assessed level of risk when fewer than three employees prepare food at the same time. However, the Ministry does not have any evidence that establishments with lower numbers of food handlers are less prone to food-borne illnesses. In comparison, British Columbia has legislated a requirement that all food service establishments have a person trained in food handling on site at all times.

Several local health units indicated that they have had difficulty in requiring food handlers to be appropriately trained. In 2002, 17 out of the 25 local health units that provided information to the Ministry indicated that less than half of the high-risk premises in their jurisdiction had trained food handlers; 91% indicated that less than half of the medium-risk premises had trained food handlers. A number of local health units indicated that legislating these requirements would assist them in ensuring that food handlers are properly trained.

Recommendation

To help minimize the risk to the public of food-borne illnesses, the Ministry should:

- **ensure that public health units are complying with food-handler-training requirements;**
- **assess the risk of not requiring trained food handlers at food premises using fewer than three employees to prepare food; and**
- **determine whether food-handler training should be legislated.**

Ministry Response

The Ministry will continue to monitor local-health-unit compliance with the requirement to ensure the provision of food-handler training. In addition, the Ministry will promote the use of food-handler training programs through local health units and food industry trade organizations.

The Ministry is supportive of having trained food handlers in all high- and medium-risk food premises regardless of the size of the operation.

The Ministry will continue to seek approval for regulatory amendments that would require the presence of a certified food handler in all medium- and high-risk food premises in Ontario.

TOBACCO CONTROL

The Ministry's Chronic Disease Prevention Program, which includes tobacco control, is intended to reduce premature mortality and morbidity from preventable chronic diseases such as stroke, lung cancer, and oral cancer. The *Tobacco Control Act, 1994* was enacted primarily to provide legislative support to efforts to reduce the rate of smoking and to protect Ontarians from second-hand smoke.

The Guidelines' objectives in this regard include: reducing tobacco use by teenagers and adults who smoke daily; increasing smoke-free public places and workplaces; and reducing tobacco sales to people under the age of 19. These objectives specifically state that the proportion of 12-to-19-year-olds who smoke daily was to be reduced to 10% by the year 2005, and the proportion of vendors that sell tobacco to minors (persons under the age of 19) was to be reduced to 10% by the year 2000. Statistics Canada reported that in the 2000/01 fiscal year, about 11.4% of 12-to-19-year-olds in Ontario smoked daily.

The Ontario Tobacco Research Unit (OTRU)—a ministry-funded organization that researches tobacco-related health problems in Ontario—noted that in 2001, 35% of Ontario students reported they were able to purchase tobacco without being asked to provide photo identification, a situation that had not changed since 1995. In December 2002, OTRU noted that progress in restricting access to minors had been good in some locales but was generally uneven and that compliance was generally not improving. However, information in the 2001 Mandatory Program Indicator Questionnaires (MPIQs) indicated that overall reported compliance in not selling to minors was 87%. While this indicates a relatively high success rate, we noted that the Ministry had not followed up on OTRU's conclusion that compliance was not improving. In 2002, Health Canada commissioned a national evaluation into retailer behaviour towards certain youth-access-to-tobacco restrictions. The results, based on seven major cities in Ontario, indicated that the overall provincial rate of vendor compliance in not selling to minors was approximately 75%.

Inspections and Compliance Checks

Local health units are required to inspect all tobacco vendors at least annually and perform follow-ups to ensure compliance with the *Tobacco Control Act, 1994*. For a sample of vendors, local health units are also required to perform compliance checks, where a test shopper who is 15 to 17 years of age attempts to purchase tobacco. Where inspections or compliance checks discover issues of non-compliance, warnings are issued. If the vendor is found to still be non-compliant on a follow-up visit, the vendor is charged. Charges may result in fines or a prohibition from selling tobacco.

The Ministry communicates its requirements regarding the frequency of inspections and compliance checks through the Guidelines and its tobacco control protocols. However, even though the Ministry revised its Tobacco Vendor Compliance Protocol in 2000 to require most local health units to increase the number of test-shopper compliance checks of tobacco vendors, the Guidelines continue to refer to the 1998 protocol. We noted that, in many instances, local health units did not perform compliance checks for a sufficient number of vendors according to the 2000 protocol.

Based on information submitted to the Ministry on their 2001 MPIQs, local health units' tobacco vendor-inspection activities were not as rigorous as required. Specifically:

- Only 10 of the 36 local health units that provided inspection information to the Ministry indicated that they inspected 100% of their vendors during the year. A total of approximately 40% of tobacco vendors across the province did not receive the annual inspection that is required under the Guidelines.
- Only 60% of the tobacco vendors who were warned of non-compliance or who were charged within the previous two years received the required semi-annual inspections in 2001.

Enforcement

In December 1998, the then-Minister of Health and Long-Term Care appointed an advisory panel of experts to recommend how Ontario could achieve more effective tobacco control results. At the time, vendors charged under the *Tobacco Control Act, 1994* could be prohibited from selling tobacco for six months or subject to fines under either that Act or the *Provincial Offences Act*.

In its 1999 report, the Expert Panel on the Renewal of the Ontario Tobacco Strategy indicated nine areas that needed to be addressed by the government. These included enforcement resources, fines and penalties for non-compliant vendors, increased smoke-free spaces, and increased tobacco prices. The panel also recommended that the Act "should be amended to make it easier to prosecute vendors, and should be streamlined and clarified in order to prevent senior courts from diluting its intent." In 1999, fines under the *Tobacco Control Act, 1994* were increased. However, no other significant changes were made to the Act.

The Ministry had not followed up with local health units to determine whether the increased fines had had any impact on compliance. Although the Ministry was maintaining a cumulative summary of charges and convictions resulting from violations of the *Tobacco Control Act, 1994*, it did not track trends.

The *Tobacco Control Act, 1994* states that a vendor is automatically prohibited from selling tobacco for six months if the same person is convicted twice within five years of selling tobacco to someone under the age of 19. To assist in obtaining prohibitions of the sale of tobacco when appropriate, the Ministry's 1994 guide to the Act indicates that, if possible, the owner should be charged in addition to the sales clerk. However, 80% of the local health units we surveyed indicated that they encountered problems in effectively enforcing the Act, including difficulty in obtaining a prohibition of the sale of tobacco.

The expert panel also recommended that the government require that indoor public places be 100% smoke free. This coincides with one of the objectives of the mandatory programs, which stipulates that the proportion of smoke-free public places and workplaces be increased to 100% by the year 2005. However, the *Tobacco Control Act, 1994* delegates the responsibility for achieving this objective, in part, to municipalities. The Ontario Tobacco Research Unit concluded in its December 2002 report that this objective is unlikely to be achieved without provincial legislation. Many of the local health units who responded to our survey also indicated their support for provincial legislation to assist in achieving local goals for smoke-free premises and public spaces.

Recommendation

To improve tobacco control in Ontario and thereby help achieve the Ministry's goal of reducing premature mortality and morbidity from preventable chronic diseases, the Ministry should:

- **ensure that local health units work towards the goal of reducing the number of minors having access to tobacco products by conducting the required number of inspections and compliance checks; and**
- **determine whether changes to legislation would assist the Ministry and local health units in better meeting tobacco control objectives.**

Ministry Response

Random assessments of local health units by ministry staff regarding tobacco enforcement were started in March 2003. These assessments will help improve local health units' compliance with program standards (including the number of compliance checks) outlined in the Mandatory Health Programs and Services Guidelines.

The Ontario Tobacco Strategy is in the process of reviewing training needs of tobacco-enforcement staff in health units to further assist with tobacco enforcement and to better ensure compliance with the Mandatory Health Programs and Services Guidelines.

The Public Health Branch will continue to seek approval for a comprehensive tobacco control strategy, including strengthening of the **Tobacco Control Act, 1994.**

TUBERCULOSIS CONTROL

According to the World Health Organization, tuberculosis (TB) affects an estimated one-third of the world's population, mostly in developing countries. Annually, an estimated 8.4 million people are newly infected worldwide, and 1.9 million people die of the disease. In addition, the World Health Organization estimates that 50 million individuals are infected with strains of TB that are resistant to one or more common anti-TB drugs.

Infected individuals with a healthy immune system have only a 10% chance of developing active symptoms of TB. However, once someone develops active TB lung-infection symptoms, that person can spread the disease. People with inactive TB may take medication to help prevent the disease from becoming active.

According to ministry data, the incidence of TB has been declining in Ontario, from 6.8 per 100,000 people in 1997 to 5.8 per 100,000 people in 2001. One objective of the TB Control mandatory program is to reduce the annual incidence rate of active TB to 3.5 per 100,000 people by the year 2005.

Medical Surveillance

Most of the cases of TB in Ontario occur among immigrants living in major urban areas. Individuals are at the highest risk of developing active TB within the first five years of their arrival in Canada. The foreign-born active and relapsed cases of TB in Ontario in 2001 accounted for over 80% of all active and relapsed cases.

All potential immigrants and some visitors to Canada are required to undergo a clinical examination. For individuals 11 years of age or older, this includes a chest x-ray. Individuals found to have active TB are not permitted to immigrate to Canada until they have completed treatment. Individuals with inactive TB lung infection are required to report to their local public health unit for medical follow-up within 30 days of arriving in Canada. This is done to ensure that their TB has not become active and to determine whether medical treatment is appropriate. The Ministry provides local health units with information from Citizenship and Immigration Canada concerning these individuals.

National guidelines for the investigation and follow-up of immigrants with inactive TB who are referred for medical surveillance are included in the Canadian TB Standards and state that these individuals should receive at least one complete medical evaluation. Important components of this evaluation include obtaining a comprehensive patient history and performing a physical examination and laboratory tests, including an x-ray. Such an evaluation is consistent with the requirements in the Ministry's Tuberculosis Control Protocol, which provides guidance to local health units. The national guidelines also state that individuals who are placed under medical surveillance are required to provide to Citizenship and Immigration Canada evidence of compliance with the medical surveillance requirement from the local health unit to have their medical surveillance terms and conditions removed. According to Public Health Branch staff, the Citizenship and Immigration Canada requirement regarding evidence of compliance is met as soon as an individual contacts a local health unit. However, except in rare circumstances, an individual cannot be forced by the local health unit to have a physical examination or x-ray.

We were informed that the Ministry does not keep track of the number of individuals that Citizenship and Immigration Canada has referred for medical surveillance. However, based on information reported by the local health units to the Ministry, we calculated that there were about 6,100 such individuals in 2001. Of the 21 local health units we surveyed that did issue the required evidence-of-compliance letters for Citizenship and Immigration Canada, nine indicated that they would provide the letters once individuals contacted them, in some cases even if only by telephone. Despite the requirement that health units continue with surveillance of those individuals, once a letter is provided an individual may choose not to have a physical examination or x-ray. The other 12 local health units indicated that they would provide the letter only after the individual had had a physical examination or x-ray. The national guidelines note that "non-compliance with prescribed treatment for inactive TB may be problematic for those on medical surveillance and has been significantly associated with the development of TB disease in refugees."

In our *1997 Annual Report*, we recommended that the Ministry should improve its ability to track individuals under surveillance for inactive TB. At that time we noted that the Public Health Branch had indicated that approximately 35% of the individuals who were required to undergo medical surveillance for inactive TB by boards of health, including notifying the appropriate authorities of address changes, could not be followed up on due to missing or incorrect information such as a wrong address provided. Ministry staff also indicated at that time that Public Health Branch staff may be able to use OHIP's Registered Persons Data Base to obtain the necessary information.

Information reported by local health units to the Ministry for the 2001 year indicated that only 65% of referred individuals were successfully contacted and managed by local health units in accordance with the Ministry's Tuberculosis Control Protocol. We were advised that local health units were required to inform the Ministry of those individuals who could not be contacted. However, the Ministry had not determined whether local health units were fully complying with this requirement. Procedures had also not been implemented to utilize the Ontario Health Insurance Program's (OHIP's) Registered Persons Data Base to attempt to locate individuals who had not reported to a local health unit or had not undergone a physical examination and x-ray.

Recommendation

To help reduce the incidence of active tuberculosis, the Ministry should enhance the effectiveness of medical surveillance by:

- **ensuring that local health units consistently and appropriately complete the medical surveillance of individuals with inactive tuberculosis, including ensuring that they have undergone a physical examination and x-ray; and**
- **using all available sources of information, including the Ontario Health Insurance Program's Registered Persons Data Base, to track those individuals under medical surveillance who were not successfully contacted and managed by local health units.**

Ministry Response

The Ministry will confirm with local health units that, notwithstanding Citizenship and Immigration Canada's limited requirement for persons on medical surveillance (that they make contact with the local public health authority), the follow-up by local health units in Ontario for persons on medical surveillance must be completed as outlined in the Tuberculosis Control Protocol (January 1998). This follow-up by local health units would require, as a minimum, that the person on medical surveillance has undergone a follow-up medical examination and chest x-ray in Canada.

The Ministry has put processes in place to improve the effectiveness of medical surveillance. The Ministry will continue to work with Citizenship and Immigration Canada and the Ministry's Registration and Claims Branch to determine how their respective data can be shared with local public health units.

Contact Tracing

The Ministry's Tuberculosis Control Protocol requires that local health units locate and screen (trace) individuals who have been in contact with a person with active TB, in order to ensure that such individuals do not have active TB and to determine if they should be receiving treatment.

In our 1997 audit, we recommended that the Public Health Branch obtain additional information on the results of TB contact tracing by boards of health. The Ministry responded that a new information system for tracking reportable diseases was in early development and that additional information on individuals who have come in contact with a person with active TB would be included in the system. At the time of our current audit, such a system had not been put in place, and the Ministry's information on the extent and results of contact tracing was still limited. In addition, ministry and local health unit staff informed us that, except under rare circumstances, they generally cannot force individuals who have come in contact with a person with active TB to be screened. We were informed that the Ministry is considering a federal/provincial/territorial initiative to implement an automated public health information system that would support public health case management. Such a system would also prove useful in cases of other communicable diseases.

Recommendation

To help monitor the effectiveness of tuberculosis control in reducing the risk of spreading active tuberculosis, the Ministry should obtain more complete information on the results of tuberculosis contact tracing by local health units.

Ministry Response

The Ministry will continue to work with Health Canada, other provinces and territories, and other stakeholders to implement the integrated Public Health Information System for the surveillance of communicable diseases. This system, when implemented, should enable the Ministry to obtain information on the results of contact tracing.

Treatment

The Tuberculosis Control mandatory program requires that local health units monitor patient adherence with prescribed drug regimens, including monitoring for the completion of therapy in accordance with the Ministry's Tuberculosis Control Protocol. A patient's failure to comply with the drug regimens may result in a recurrence of TB that is drug resistant.

In our 1997 audit, we noted that the Ministry was reviewing the need for directly observed therapy (DOT), whereby a trained individual directly observes the patient taking the required anti-TB medication. The World Health Organization recommends DOT. In 1998, the Ministry issued the Tuberculosis Control Protocol, which stated that DOT should be arranged for all patients with respiratory TB, unless their assessment indicated they are highly likely to comply with therapy. This is consistent with national standards. However, information reported by local health units to the Ministry for 2001 indicated that only 66% of patients requiring DOT actually underwent any direct observation.

Recommendation

To help prevent the spread of drug-resistant tuberculosis, the Ministry should develop and implement strategies to better ensure that all patients actually complete the required treatment.

Ministry Response

The Ministry will continue to monitor local health unit activity with regard to the number of patients treated with Directly Observed Therapy. The Ministry will continue to review treatment completion data and will work with local health units to develop strategies to improve the treatment completion rate.

VACCINE-PREVENTABLE DISEASES

The development of vaccines and immunization programs has almost eliminated some diseases and drastically reduced the impact of others. As international travel has increased, immunization and vaccination programs have been implemented on a wide scale to help protect individuals from contracting diseases, such as measles, from infected travellers from foreign countries where the diseases are still common.

The goal of the Ministry's Vaccine Preventable Disease mandatory program is "to reduce the incidence of vaccine preventable diseases." Immunization is widely considered to be a cost-effective health intervention for achieving this goal, leading to improved health, reduced suffering, and fewer premature deaths. Ontario's Association of Local Public Health Agencies (ALPHA) has stated that "effective vaccination programs have repeatedly proved to be one of the most cost-beneficial components of the health care system." The Ministry provides certain vaccines free of charge to local health units and physicians. In the 2002/03 fiscal year, the Ministry spent $67.7 million on vaccines.

Vaccines Covered

The range of immunizing agents available continues to expand as new vaccines are licensed or as currently available vaccines are improved or modified. The Ministry currently covers the cost of routine vaccinations against measles, mumps, rubella, diphtheria, tetanus, polio, pertussis, haemophilus influenza type B, influenza, and hepatitis B.

The National Advisory Committee on Immunization, an expert advisory board to Health Canada, makes recommendations on the use of vaccines in Canada. It recommends routine vaccination against varicella (chickenpox) and certain types of bacterial infections that can cause serious illnesses such as pneumococcal and meningococcal disease (meningitis). Some provinces in Canada offer these vaccines to their population at no cost. For example, British Columbia and Alberta offer the meningococcal vaccine at no cost, and PEI and Alberta offer the chickenpox vaccine at no cost. In Ontario at the time of our audit, the chickenpox vaccine was not being provided on a routine basis, the pneumococcal vaccine was being covered only for high-risk persons, including persons over 65 years old, and meningococcal vaccine was being provided only to individuals in close contact with individuals who have a vaccine-preventable strain of the disease. We noted that ALPHA has stated that "by failing to fund new licensed and effective vaccines, the province is displaying an incomplete commitment to the goal of the program that its own Ministry of Health has set."

Recommendation

To help reduce the incidence of vaccine-preventable diseases, the Ministry should ensure that other vaccines recommended by the National Advisory Committee on Immunization are added to Ontario's routine immunization program unless sound reasons exist for not including the recommended vaccines.

Ministry Response

The Ministry will continue to review all new vaccines recommended by the National Advisory Committee on Immunization and to develop and propose implementation options (including costing) for the introduction of these vaccines in Ontario.

Immunization

IMMUNIZATION OF CHILDREN

The immunization of children is primarily governed by the *Immunization of School Pupils Act*, the *Day Nurseries Act*, and the Guidelines. The *Immunization of School Pupils Act* and the *Day Nurseries Act* require that all school-aged children and children attending licensed child care facilities in Ontario be vaccinated against certain diseases unless they have an exemption for medical reasons, statement of conscience, or religious beliefs.

The requirements of the Guidelines and legislation vary with respect to the information about children to be provided to local health units. For example:

- The Guidelines require that a record of each child's vaccination status or exemption be on file with the local health unit. If no record is on file, local medical officers of health can have the child suspended from school.
- Although not required to under the *Immunization of School Pupils Act*, local health units do obtain the vaccination status of children regarding pertussis (whooping cough) and haemophilus influenza type B—vaccinations that are required for children entering a day nursery.
- *The Education Act* requires that public schools provide the local health unit with information on the students enrolled at the school, including the student's name, address, date of birth, and parent's/guardian's name.

Local health units enter the immunization status of children into the local Immunization Records Information System (IRIS), for local and provincial tracking. However, the Ministry cannot access immunization information on children who were entered without an OHIP number and must rely on reports from local health units for this information. While local health units have the right to collect OHIP numbers, schools are not required to provide them. As a result, it is difficult for local health units to ensure that the records of children entered without a number are not duplicated (for example, if the children change schools or local health units). IRIS information may also be incomplete for pre-school children not in licensed child care facilities and for children in private schools, since the *Education Act* does not require private schools to provide the local health unit with a list of students. In these cases, it is up to parents to contact the health unit with information on their children. Consequently, the IRIS does not have sufficient data to provide the Ministry with a complete picture of the immunization status of children, and therefore the Ministry relies on the information self-reported by local health units through the MPIQ process or provided in response to a ministry request. The 2001 MPIQs indicated that at least 14% of children entered in IRIS had not had all required immunizations by age seven.

IMMUNIZATION REGISTRY

Immunization registries are confidential computerized information systems in which vaccination data about individuals are stored. The registries consolidate all the vaccination records from an individual's health care providers, identify individuals who are due or late for vaccinations, generate reminder notices to ensure that individuals are vaccinated appropriately, and identify service providers or geographic areas with low vaccination coverage.

In Ontario, vaccines are primarily administered by doctors but may also be administered through various other means, including public health clinics. However, physicians and other administering groups are not required to report to local health units on vaccines administered either at the time of immunization or at any later time. Instead, as already mentioned, Ontario's current legislation places the onus on parents to report the immunization status of their children to local health units. Since parents generally do not report immunization results until a child enters a licensed day care or school, immunization information for pre-school children not in licensed facilities is incomplete at best. In addition, because the information is generally reported a number of years after the child was vaccinated, children's records may be inaccurate.

In our *1997 Annual Report*, we recommended that the Ministry assess the feasibility of modifying existing systems or developing appropriate ones to capture necessary immunization information. The Ministry responded that it was working on improving monitoring systems to enable better assessment of immunization coverage in the population. However, no such system had been implemented at the time of this audit.

We were informed that the Ministry was considering a federal/provincial/territorial initiative to implement an automated public health information system that would support public health case management and the sharing of communicable disease surveillance and immunization information. The Ministry recognized that this system would need to be modified to provide all of the information that the Ministry needs.

Recommendation

To help achieve its goal of reducing the incidence of vaccine-preventable diseases, the Ministry should more effectively monitor the immunization status of children to ensure that all school-aged children have had the required vaccinations. To this end, the Ministry should ensure that it has an immunization registry that provides complete, accurate, and timely immunization information.

Ministry Response

The Ministry supports the National Immunization Strategy by working with the Canadian Immunization Registry Network to assist in the development of a core data set and standards. In addition, the Ministry supports efforts to develop an immunization registry that effectively monitors the immunization status of children in Ontario.

Influenza Vaccine

Prior to the 2000/01 fiscal year, only high-risk individuals, such as seniors and health care workers, were eligible to receive the influenza vaccine at no charge. Since then, the Ministry has provided the influenza vaccine free to all Ontarians through its universal influenza immunization program.

The immunization program's main objectives are to decrease the number of cases and severity of influenza and to reduce the impact of influenza on emergency room visits and other areas of the health care system. However, since the Ministry lacks data on the number of vaccines actually administered, it could only estimate that 26% to 45% of Ontarians were immunized against influenza during each of the 2000/01 and 2001/02 influenza seasons. (The variation in the estimate is due to differences in the estimating methods used and assumptions made.)

The Centers for Disease Control and Prevention—a U.S. government agency—states that the "flu vaccine is the single most effective means for preventing infection with the flu virus and the complications associated with flu." Yet Ontario is the only jurisdiction in North America to have a universal influenza immunization program. Therefore, assessing whether the influenza vaccine is meeting all program objectives is especially relevant. Such an evaluation is also important because the cost per dose of the influenza vaccine has almost doubled since the program started and Ontario spent $19.6 million on the vaccine in the 2002/03 fiscal year. In the 2000/01 fiscal year, the Ministry established a committee—with representation from the Institute of Clinical Evaluative Sciences, the Public Health Research, Education and Development group, and local health units—to provide advice regarding the evaluation activities that could be conducted. The Ministry noted in this regard that, since influenza seasons vary in severity, a multi-year outcome evaluation is required.

While various stakeholders have examined the delivery of the program, as of March 2003—the third year of the program—the Ministry had not evaluated whether, as a result of the program, the number of cases and the severity of influenza had decreased and the impact of influenza on emergency room visits and other areas of the health care system had been reduced.

Recommendation

To help determine the effectiveness of the universal influenza immunization program, the Ministry should evaluate whether the program is meeting its objectives of decreasing the number of cases and severity of influenza and reducing the impact of influenza on emergency room visits and other areas of the health care system.

Ministry Response

There are plans by the Ministry to reconvene the Universal Influenza Immunization Program Evaluation Planning Group to provide advice regarding the evaluation activities that could be conducted in the long term using cumulative data.

Vaccine Wastage

The Ontario Government Pharmacy and Medical Supply Service (OGPMSS) buys vaccines and distributes them free of charge to local health units, who may retain some for their own programs and distribute the rest to doctors and other vaccine-administering groups such as health care facilities. In Toronto, doctors, as well as other administering groups, receive their vaccines directly from the OGPMSS.

Although a certain amount of vaccine wastage, mishandling, and over-ordering is inherent to any vaccine distribution process, one objective of the Vaccine Preventable Diseases mandatory program is to minimize wastage of provincially funded vaccines to 5% or less. The Guidelines require that local health units optimize vaccine use by following the Ministry's Vaccine Distribution, Storage and Handling Protocol, which focuses on ensuring vaccine potency and reducing spoilage.

In order for the Ministry to monitor vaccine use and wastage, it requires complete and accurate information on vaccines distributed, administered, returned, and wasted due to expiration or spoilage. The OGPMSS distributes vaccines on the basis of orders received from local health units and Toronto doctors and tracks the quantities distributed. If an order size seems unusual, the OGPMSS may check it against past orders and may ask for clarification. The OGPMSS also requires that unused or spoiled vaccines be returned.

Local health units and Toronto doctors are requested to complete a vaccine return record indicating the reason the vaccine is being returned and, in the case of local health units, whether the vaccine can be redistributed. Returned vaccines may be redistributed if they were properly stored and have not expired. All returns from doctors are considered wastage, because the vaccine may have spoiled due to improper storage.

However, although the Ministry has information on vaccines distributed and some information on vaccines returned, information is not available on the amount of vaccine actually administered to patients. Without this information, the Ministry is unable to accurately determine the overall amount of vaccine wasted and the possible reasons why.

We note that OGPMSS does report on vaccine wastage using the information available to it—it reported wastage of about 9% of the vaccines distributed to local health units and of less than 1% of those distributed to Toronto doctors in 2002. However, this reporting is incomplete because it excludes returns from doctors that are not accompanied by a return record—and we were informed that doctors often do not complete the return records or may otherwise dispose of the vaccine. In addition, while the OGPMSS's tracking system can produce wastage reports by individual local health unit, it is unable to produce reports on wastage by individual Toronto doctor, limiting the Ministry's ability to determine the extent of wasted vaccines and to take appropriate action.

Recommendation

To help limit vaccine wastage, the Ministry should obtain accurate and complete information about vaccine wastage and take appropriate action to reduce wastage.

Ministry Response

The Ministry's Public Health Branch is in discussions with the Ontario Government Pharmacy and Medical Supply Service on this matter. The two will work together to streamline and improve the reporting and tracking of vaccines distributed, used, and wasted. The Ministry will remind doctors about the importance of completing and returning records for accounting purposes and of reducing vaccine wastage.

WEST NILE VIRUS CONTROL

West Nile virus (WNv) was first confirmed in North America in 1999 and in Ontario in 2001. The first human cases in Ontario occurred in the summer of 2002. WNv is carried by mosquitoes and affects birds and mammals, including people. Studies indicate that most persons bitten by an infected mosquito will have no symptoms; however, approximately 20% of those infected will develop a mild illness (for example, West Nile fever), and 1% develop a serious illness. During the 2002/03 fiscal year, the Ministry funded local health units with approximately $1.8 million for WNv activities.

Since each of the 37 local health units in Ontario has a high degree of autonomy in protecting the health of its community, there exists the possibility of many different responses to WNv. However, given that WNv is a provincial issue, in that WNv can spread across the province, there is a need for some consistency in responses. The Ministry has provided guidance to local health units, including the following:

- In August 2000, the Ministry sent local health units a document that addressed the potential arrival of WNv in Ontario. The document described surveillance plans (for example, testing birds, mammals—including humans—and mosquitoes for WNv) and prevention, response, and control issues. Subsequent updated documents were sent to local health units in May 2001 and February 2002 and included the importance of public education to help reduce mosquito-breeding areas.
- On March 22, 2003, the Ministry announced a seven-point action plan to combat WNv. This action plan included expanding laboratory services in Ontario to test for WNv, providing funding to local health units for insecticides, and enhancing surveillance by making WNv a reportable disease.
- On March 27, 2003, the Ministry sent local health units the WNv Preparedness and Prevention Plan for Ontario 2003. This was the "field guide" to the seven-point action plan and provided the "planning basis for an Ontario approach to the prevention and control of West Nile virus across the province by the health units." While this Plan covered a wide range of areas, it did not state when local health units should consider the use of insecticides. Instead, the Plan stated that, prior to using insecticides, local health units are required to conduct their own risk assessments, which should include factors such as community attitudes towards the risks posed by WNv versus the likely benefits and risks of using insecticides.

Notwithstanding this ministry guidance, most of the 37 local health units had to conduct their own research to determine best practices for when to use insecticides. In fact, many of the local health units we surveyed in April 2003 indicated that additional and more timely guidance on when to use insecticides was needed, and in 2002 none of the local health units carried out any insecticiding at all.

Effective May 31, 2003, the Control of West Nile Virus regulation was made under the *Health Protection and Promotion Act*, requiring local medical officers of health to conduct risk assessments in accordance with the West Nile Virus Preparedness and Prevention Plan for Ontario 2003 (which was revised to reflect the new regulation). Local medical officers of health may give notice to their respective municipalities of any action required. In addition, the regulation provides guidance to local medical officers of health on insecticide use.

As of May 1, 2003, West Nile virus illnesses became a reportable disease, whereby physicians are required to report the specific diagnosis of WNv to the local health unit. According to the Ministry, the initial intent was to then have the cases recorded on the Ministry's Reportable Diseases Information System (RDIS). Previously, WNv was reportable on RDIS only as a cause of viral encephalitis/meningitis, which could also be caused by other viruses. However, as of May 2003, there was still no electronic system in place to enable more timely reporting of all cases of WNv to the Public Health Branch, though as an interim step, the Ministry has requested local health units to manually report information on all probable and confirmed human cases of WNv.

Recommendation

To facilitate an effective response to West Nile virus by local health units, the Ministry should ensure that:

- **local health units comply with the Control of West Nile virus regulation and other guidance provided by the Ministry, including conducting risk assessments;**
- **local health units carry out West Nile virus interventions in a cost-effective manner based on the results of local risk assessments; and**
- **there is an electronic system in place to record and report all cases of the West Nile virus on a timely basis.**

Ministry Response

The Ministry will ensure compliance with the Control of West Nile virus regulation by:

- ***reviewing board-of-health budget submissions for West Nile virus prevention and control;***
- ***holding weekly teleconferences with local health units; and***
- ***requiring post-season report-backs from boards of health.***

With regard to the cost effectiveness of interventions by local health units at the provincial level, the Ministry will also flag cost-effectiveness issues that will require working with Health Canada and the Ministry of the Environment.

The Ministry is implementing the integrated Public Health Information System for all communicable diseases, including West Nile virus; however, the automated application will not be available until next year's West Nile virus season. In addition, the Ministry has developed a process for electronic data transfer of laboratory test results of human West Nile virus testing to the Ministry, local health units, and Canadian Blood Services. This process will be operating shortly.

INFORMATION SYSTEMS

Public Health Information Strategy

In October 2000, the Ministry, in conjunction with a consulting firm, prepared a Public Health Information and Information Technology Strategic Plan. The Plan presented an overall information technology strategy for public health. However, at the time of our audit it had generally not been implemented.

The Plan also identified a large number of systems that have been developed independently among the 37 local health units, primarily in areas where ministry-supported systems were inadequate or non-existent. The Plan noted that the sharing of information between the local health units and the Ministry was limited and that "current legislation and technology infrastructure limits sharing between the health units themselves."

The development of independent systems is a concern, as it could hinder the integration of public health information across the province, possibly resulting in the loss of timely, important information needed for public health interventions and for prevention activities. It is also a concern because of the duplication of effort, costs, and time associated with independently developed information systems.

Surveillance Systems

Health surveillance is the ongoing collection, analysis, and interpretation of information that can be used to plan and manage efforts to control diseases. This includes information that assists in controlling outbreaks, making informed resource allocation decisions, and developing or changing public health policies and programs to make them more effective. Currently, the Public Health Branch supports two surveillance systems: the Reportable Diseases Information System (RDIS)—for communicable diseases and vaccine-associated adverse events (such as illnesses occurring as a result of vaccination)—and the Immunization Records Information System (IRIS) for immunization.

In our *1997 Annual Report* we noted that the Ministry indicated that it planned to replace RDIS with an improved system. However, this has not happened, even though the Ministry's October 2000 Strategic Plan noted that RDIS "was developed in the late 1980s with technology that today is extremely outdated, proprietary, and very costly to maintain and support." It further stated that, "one public health role is to analyze health surveillance data to create public health policy and to prioritize and amend public health programs. Much of the information required to provide this analysis is either unavailable or of questionable quality."

The only information a local health unit can access on a timely basis is information pertaining to its own jurisdiction. This may limit a health unit's ability to manage fast-spreading outbreaks that may have occurred in other jurisdictions in Ontario. In addition, because local health units generally send communicable diseases data to the Ministry only on a weekly basis, cross-jurisdiction information may not be readily available at the Ministry on a timely basis. Also, if local health units are behind in entering data into the systems, the information at the Ministry may be incomplete or inaccurate.

As mentioned previously, we were informed that the Ministry was considering a federal/provincial/territorial initiative to implement an automated public health information system that would support public health case management and the sharing of communicable disease surveillance and immunization information. We were also informed that there were plans to pilot this system in Ontario.

In seeking improvements in its surveillance systems, the Ministry in 2002 participated in a health surveillance project as part of the Network for Health Surveillance in Canada initiatives—a collaborative federal/provincial/territorial effort to build the capacity for specific types of health surveillance at local, provincial, and national levels by, for example, developing information systems to support public health practice and health surveillance. The Network's Communicable Disease Surveillance Sub-Group, which "is developing a long-term strategy for the surveillance of communicable diseases," has also been focusing on developing data standards and data definitions for information collected on communicable diseases, immunization, and vaccine-associated adverse events.

In assessing Ontario's status as part of the health surveillance project, problems were noted with both RDIS and IRIS. For example, it was noted in the project that changes to data in both systems were not being tracked, making it difficult to know what changes had occurred, who had made the changes, and when the changes had occurred. In addition, many local health units were not collecting certain types of data (for example, laboratory slips and school lists) electronically and had to manually enter the data into the information systems.

Recommendation

To help ensure that timely, consistent, and integrated information is available to deliver public health services across the province, the Ministry should implement, either in conjunction with the federal/provincial/territorial initiative to implement an automated public health information system or independently, an adequate public health surveillance system for communicable diseases and immunization.

Ministry Response

The Ministry is proceeding to implement a province-wide, integrated Public Health Information System for the purpose of surveillance, case management, and reporting of communicable diseases in Ontario. This information system is available to all federal, provincial, and territorial jurisdictions through the Canadian Integrated Public Health Surveillance Collaborative.

MINISTRY OF TRAINING, COLLEGES AND UNIVERSITIES

3.10–Ontario Student Assistance Program

BACKGROUND

The Ontario Student Assistance Program (OSAP) is a federally and provincially funded program that provides needs-based financial assistance to full-time students to enable them to attend an approved postsecondary school. The objective of OSAP is to help students from lower-income families meet the costs of postsecondary education so that all qualified students can have access to postsecondary education. OSAP supplements the financial resources that students or, if applicable, their families are expected to contribute.

Under the *Ministry of Training, Colleges and Universities Act* and related regulations, provincial financial assistance to students is provided primarily by loans under the Ontario Student Loans (OSL) program. The Ministry also administers the Canada Student Loan (CSL) program and the Canada Millennium Bursary (CMB) on behalf of the federal government.

The amount of loan funding students may receive is based on their financial need as calculated by the Ministry, but assistance cannot exceed $275 for each week of study in the case of single dependent or independent students and $500 per week for married or sole-support students.

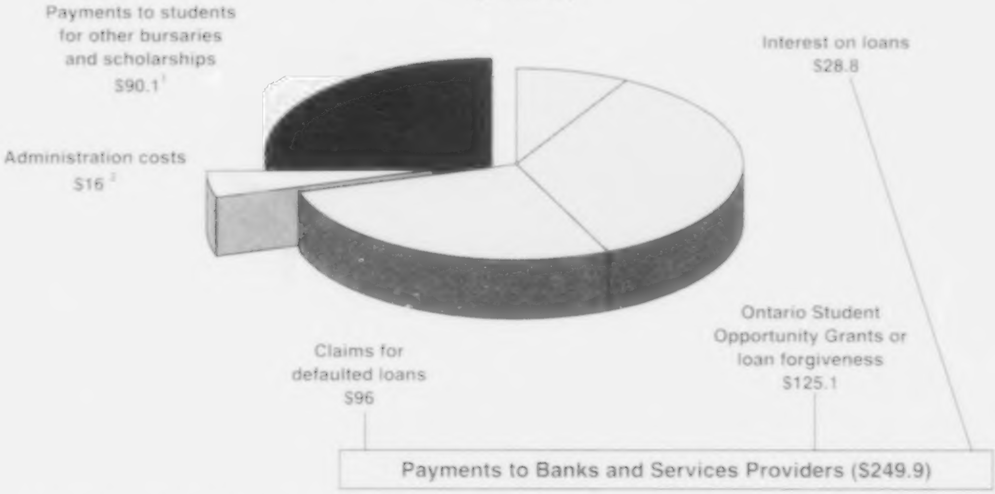
The assistance takes the form of loan guarantees, loan forgiveness grants, interest subsidies while students are attending school, interest relief during the repayment stage, and various need- and merit-based bursaries and scholarships (such as Aiming for the Top and Ontario Graduate Scholarships).

Until July 31, 2001, financial institutions provided Ontario Student Loans directly to students under terms prescribed by provincial legislation. Effective August 1, 2001, two service providers selected by the federal government—one for publicly funded colleges and universities and one for private postsecondary schools—began administering all the loans. These providers issue loans directly to Ontario students using funds provided by the Government of Canada and by the province through the Ontario Student Loan Trust. Although students are expected to repay their loans after leaving school, the Ministry pays the interest on their student loan balances while the students attend school. The Ministry also guarantees repayment of the OSL principal should students default on their loans.

The Ontario Student Opportunity Grant (OSOG) was introduced in 1998/99 to replace the Loan Forgiveness Program. An OSOG limits the amount of debt that a student will be required to repay to $7,000 for two terms of study or $10,500 for three terms. OSOGs are paid directly to the Ontario Student Loan Trust after the completion of each academic year, reducing the student loan payable at that time.

For the 2002/03 fiscal year, provincial OSAP expenditures totalled $356 million, which was allocated as outlined in the following chart.

OSAP Expenditures, 2002/03 Fiscal Year
($ million)



[1] $30.9 million of this $90.1 million is recovered from the federal government.

[2] Administration costs include $10.2 million in purchased services, much of which relate to computer system upgrades and payments to the federal government for loan administration by the service providers.

Source of data: Ministry of Training, Colleges and Universities

In addition to OSAP, other sources of financial assistance are available to eligible students in Ontario. Public postsecondary schools also offer scholarships and bursaries paid from their own funds or from Ontario Student Opportunity Trust Funds, $300 million of which were provided by the Ministry in previous years as an endowment to the schools.

All OSAP-designated schools have a Financial Aid Office that serves the school's students.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit of OSAP were to assess whether key financial and management systems and procedures are sufficient to ensure that:

- the program is delivered economically, efficiently, and in accordance with stated goals and objectives, legislated authority, and approved policies and guidelines; and

- effectiveness in achieving stated goals and objectives is reliably measured and reported.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Our audit was conducted primarily at the Ministry's Student Support Branch and included examining controls over application processing and eligibility, in-study account management, OSOGs (loan forgiveness grants), and loan collection and default management. In addition, we visited several Financial Aid Offices at postsecondary schools to interview staff and examine documentation supporting selected loan transactions and their administrative procedures. We also researched data on student financial aid programs in other jurisdictions.

The audit criteria used to conclude on our audit objectives were discussed with and agreed to by senior ministry management and related to systems, policies, and procedures that the Ministry should have in place.

We conducted our audit work during the period of December 2002 to April 2003 with an emphasis on transactions and activities conducted in 2002/03. Where appropriate, we extended our analysis of transactions to the previous two fiscal years.

The Ministry's Internal Audit Services Branch had been working with counterparts in the federal government to document, review, and strengthen controls over the new service providers under contract with the federal government, and to establish external audit arrangements for these providers that address risks to Ontario. Internal Audit had also recently completed an IT security audit of the OSAP information systems. Accordingly, we significantly reduced the scope of our work in these areas. The Internal Audit Services Branch also assisted us in performing several detailed analyses of data maintained on the OSAP information systems.

We also tested controls over two scholarship programs—the Aiming for the Top and the Ontario Graduate Scholarships—and reviewed the accountability and reporting requirements established for the Ontario Student Opportunity Trust Funds provided by the Ministry but managed by publicly funded postsecondary schools. Our observations and recommendations with respect to this work were not significant enough to warrant inclusion in this report but were communicated in a letter to the Ministry.

OVERALL AUDIT CONCLUSIONS

Since our last audit in 1997 the Ministry has taken action to address a number of our recommendations and significantly improve the overall administration of the program. For example, application processing has become much more efficient since the introduction of on-line application processing, and procedures to ensure that the Financial Aid Offices in postsecondary schools meet service delivery and program requirements have been enhanced. While systems and procedures to ensure that the program is delivered economically, efficiently, and in compliance with requirements have improved since our last audit, there are several areas where further action is required:

- The Ministry had not adequately investigated the results of its efforts to verify incomes reported on OSAP applications against federal government income tax information in order to determine the risk of undetected abuse. For example, it had not determined the number of students and supporting individuals whose reported income could not be verified over several years.
- The Ministry has paid about $2 million more annually in interest and risked at least $6 million more in annual default costs than it should have because:
    - the majority of each loan advance is paid out early in the study period even though the study period can be up to a year long;
    - many postsecondary schools do not have adequate or timely processes for monitoring and recording changes in students' academic status that should have reduced their assistance entitlement; and
    - it requires prompt repayment of loan overpayments only in cases where a student has significantly under-reported income to cause the overpayment.
- The Ministry paid loan forgiveness grants to students who did not qualify for such grants (students who either had reduced their course load to part-time status or appeared not to have attempted to complete their studies) because the students' schools had not updated OSAP records to reflect these changes.
- Our own analysis to identify instances and patterns of reporting errors or abuse by students revealed unlikely circumstances that the Ministry ought to have questioned, such as students or parents reporting an increase of three or more dependent children from the previous year.
- The Ministry could further reduce the cost of defaulted student loans by several million dollars by making greater use of default management practices successfully employed in other jurisdictions. It had also not referred at least 60,000 additional defaulted loans on which collection efforts had been unsuccessful to the Canada Customs and Revenue Agency, which would collect the outstanding amounts from any future income tax refunds claimed by the debtors.
- The Ministry had made insufficient efforts to measure and report on the program's effectiveness. Loan default rates were the only published performance measure for the program. While the Ministry had been working with the federal government to develop more comprehensive performance measures for student assistance programs across Canada, no firm target date had been established for finalizing the measures or for collecting and reporting program results.

DETAILED AUDIT OBSERVATIONS

DETERMINING ELIGIBILITY AND LOAN ENTITLEMENTS

Overview of Loan Application Processing

The Ministry manages and reports OSAP activity on an operating year of August 1 to July 31. Unless otherwise specified, all figures in this report refer to this OSAP operating year. As of March 31, 2003, the province had guarantees outstanding on about 594,000 Ontario Student Loans totalling about $2.4 billion that were held by banks and the Ontario Student Loan Trust. About $1.1 billion (47%) was related to borrowers who had completed their studies and were repaying their loans. The remaining loans were held by students who were still in school or who had completed their studies within the six-month period ending March 31, 2003.

Between August 1, 2002 and March 31, 2003, the Ministry received 204,432 applications for financial assistance and approved the amounts outlined in the following table.

Student Loan Activity August 1, 2002 to March 31, 2003

	Loans Issued	Value of Loans Issued ($ million)	Average Loan Value ($)
Ontario Student Loans	130,824	444.5	3,400
Canada Student Loans	148,294	622.8	4,200
Total		**1,067.3**	**7,600**

Source of data: Ministry of Training, Colleges and Universities

All OSAP-designated schools have a Financial Aid Office (FAO) that serves the school's students. Students who attend Ontario colleges and universities, as well as those who attend approximately 50% of the province's private career colleges, are required to submit all supporting documentation to their school's FAO. (Students attending the remaining private career colleges must submit their documentation directly to the Ministry.) The FAOs also adjudicate any reviews related to a specific student's status or request for additional loan assistance. All these duties are governed by legislation, ministry policies, and procedural guidelines.

During the 2002/03 academic year, approximately 90% of the applications the Ministry received were submitted electronically using the Ministry's on-line Web site. Applications are electronically checked for accuracy, completeness, and eligibility criteria such as Ontario residency, registration at an approved postsecondary school in an approved program with at least 60% of the full course load, and whether the applicant is in good standing with OSAP.

The applicant's loan entitlement is determined based on such criteria as the student's family circumstances; the reported income of the student and of the student's parent(s) or spouse as applicable; expected educational costs; and the approved living allowances. The federal and provincial loan programs are very similar; however, there are a few eligibility criteria that differ. Thus, a separate determination of loan entitlement is required for each program.

After eligibility is approved and the entitlement determined, students must complete a "Confirmation of Enrollment" document at their school's FAO in order for the FAO to release their loan certificate. Students forward that "Certificate of Loan Approval and Entitlement" to the appropriate service provider. The service provider then either deposits funds in the student's bank account electronically or mails the student a cheque. Students normally receive 60% of their loan at the beginning of their first study term and 40% of their loan at the beginning of their second study term.

A student's assistance entitlements may change if the Ministry subsequently determines that the student's income/financial status, study period, or academic status differs for any reason from the information appearing on the student's application. A reassessment can be made at any time. Students are required to provide complete and true information and to notify the school's FAO promptly of any changes to their status.

Verifying Income

Students' income—and, where applicable, their parents' or spouse's income—is a key criterion for determining loan eligibility and loan entitlement amount. Since 1996 the Ministry has attempted to verify incomes reported on each OSAP application, both the student's and any supporting individual's, by comparing those incomes with incomes reported for tax purposes to the Canada Customs and Revenue Agency (CCRA). The Ministry verifies reported student, parental, and spousal income with CCRA twice a year, usually in November and the following May. If there is a discrepancy between the income reported to the Ministry on the OSAP application and the income reported to CCRA, the Ministry may reassess the student's loan entitlement up or down. A student who has significantly under-reported income is not eligible for any further loan assistance.

In 2001 the Ministry began summarizing the results of parental income verification. For parental incomes that were verified in November 2001 and 2002, the Ministry determined that it had provided excessive loan funding or loan overpayments of $8.6 million to 15,000 students in these two years. Also, 2,800 of these students were denied their second loan disbursements, totalling $3.7 million.

Ministry policy allows students to carry one loan overpayment regardless of the amount overpaid. The amount remains outstanding until students finish their schooling, at which point the amount becomes part of their outstanding loan balance. Students begin repaying their loans six months after completing their schooling. Students who incur a second overpayment are ineligible for further assistance until the amount is repaid.

While the Ministry did not routinely summarize the financial impact of spousal and student income verification, it did determine from the November 2002 verification that for approximately 4,300 students their verified income exceeded the income they reported on their application so significantly that it resulted in their permanent restriction from future OSAP funding. For a further 28,000 students, the difference was more than $2,000, but the total amount of resulting loan overpayments was not determined by the Ministry.

The Ministry did not analyze the results of income verification to determine the risk of undetected abuse. For example, it had not determined the number of parents, spouses, and students whose income could not be verified and whether that number was growing or declining each year. The Ministry did not know whether there are students who have received loans for several years without ever having their or their supporting individual's income verified. Having such information would allow the Ministry to more effectively assess the risk of abuse over time and to focus its corrective action on areas of particular concern.

Our own analysis of the Ministry's parental income verification with CCRA for the three years ending July 31, 2002 determined that the Ministry was unable to verify parental income for more than 15,000 students, or about 7% of dependent students who received OSL entitlements during that period. About 9,700 (65%) of these students may have qualified for the maximum loan entitlement based on the low parental incomes reported on their OSAP applications. We also determined that more than 28,000 students had received OSL entitlements without having their own income verified during the three years ending July 31, 2001. Of those students, 24,000 (85%) reported incomes below the ministry-determined basic cost-of-living threshold of $6,200. These cases warrant investigation given the overpayments identified by the Ministry's parental income verification efforts to date.

We found that the Ministry was verifying parental income with CCRA on a timely basis. However, spousal income was not verified until November of the year following the student's OSAP application—that is, after most students have received three loan disbursements. The delay in verification occurs because the Ministry follows the federal policy of using spouses' current year income estimates rather than prior year actual income when determining entitlements to both CSL and OSL. These estimates' accuracy cannot be verified until the year after the application is processed. Because they are supporting individuals, parents' and spouses' incomes have a similar impact on loan entitlement (unless the spouse is also a student). Consequently, parental and spousal incomes ought to be assessed and verified the same way and at the same time.

Student income was also not verified until the November following the year in which the student was approved for OSAP. Students thus received three loan disbursements before their income was verified. More timely verification will depend largely on getting more timely data from CCRA. We understand that the Ministry was exploring options with CCRA to improve the timeliness of student income verification.

Recommendation

To ensure that efforts to verify incomes reported on applications are effective and timely, the Ministry should:

- **analyze the results of income verification to ascertain trends, identify cases where it is not working effectively, and take any necessary corrective action; and**
- **negotiate policy changes that will permit parental and spousal incomes to be verified at the same time.**

Ministry Response

The Ministry will analyze the results of income verification to ascertain trends and identify cases where the process is not working effectively so that corrective action can be taken.

The Ministry is working with the Canada Customs and Revenue Agency to improve the timeliness of the income verification process and will explore verifying parental and spousal incomes at the same time.

Calculating Entitlements Where Applicants Report Income from Social Assistance

Both students and the spouses of married students are expected to work during the pre-study period to contribute to the student's educational costs. The Ministry expects a minimum contribution no matter how low a student's actual income is, except where social assistance is the main source of that income.

For students who indicate on their OSAP application that social assistance (Ontario Works, Family Benefits, and so on) was the main source of their or their spouse's reported income before starting their studies, *all* reported income is excluded from this calculation and the minimum contribution is waived, regardless of the total income reported. However, this policy can result in students' receiving more OSAP assistance than they are actually eligible for.

For example, we found several cases in which married students indicated that their spouse's income exceeded $20,000, which is the maximum Ontario Works benefit. In four cases, the incomes exceeded $50,000, and we referred these cases to the Ministry for follow-up. But because these students indicated on their OSAP application that Ontario Works was their spouse's main income source, all other reported income was excluded from the minimum contribution calculation. No reasonableness checks were built into the system to recognize higher levels of income where Ontario Works benefits or other forms of social assistance had been received.

Recommendation

To properly determine entitlements in cases where spousal income includes social assistance as a source of income, the Ministry should correct existing loan-application processing procedures so that other significant reported income sources are considered.

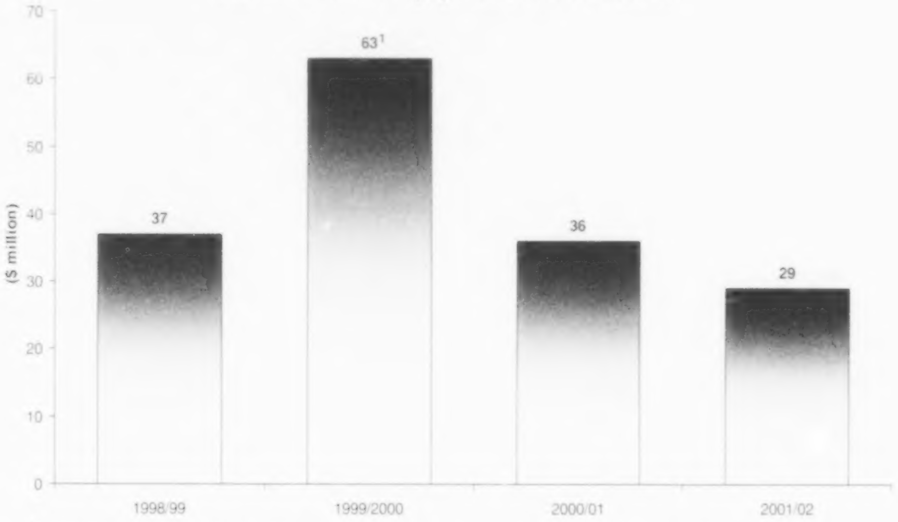
Ministry Response

The Ministry will insert additional edit checks for 2004/05 for applications where spousal incomes include social assistance benefits.

REDUCING STUDENT LOAN OVERPAYMENTS

In addition to instances where income verification has identified that actual incomes are higher than students report on their application, loan overpayments can result from other changes to a student's status. The student's academic status or study period can change, or the student can formally withdraw. Such changes should normally prompt a reassessment of the student's entitlement. When a student's OSAP application is reassessed and it is determined that the student received more funding than the student was eligible for, the student is considered to have received an overpayment. In many cases, the reassessment is made after all loan disbursements for the year have been made. Over the four-year period from 1998/99 to 2001/02, the Ministry made OSL overpayments to students totalling $165 million, as outlined in the following table.

Amount of Loan Overpayments, 1998/99–2001/02



[1] 1999/2000 was the first year that the Ministry began adjusting entitlements due to under-reporting of student income, contributing to the significant increase in identified overpayments.

Source of data: Ministry of Training, Colleges and Universities

As stated earlier, students are allowed to carry one overpayment until they finish their schooling. As long as the student remains in school, the Ministry pays on the student's behalf the interest that accrues on that student's loan. Thus, taxpayers are subsidizing the interest carrying costs on any overpayments. At an average interest rate of 5.8%, these costs amounted to approximately $2.5 million annually between 1998/99 and 2001/02. In addition, the taxpayers reimburse the banks and the Ontario Student Loan Trust for all defaulted loans, including any overpayments. Based on the 2002 default rate of 13.9%, overpayments between 1998/99 and 2001/02 have likely cost taxpayers at least $6 million annually (and likely more, because earlier years' default rates were higher). By minimizing overpayments, the Ministry would reduce interest costs and also reduce the amount of loans at risk for future loan defaults.

The Ministry does not analyze the main sources of overpayments to determine needed corrective action. Two major reasons why loan overpayments occur are under-reporting of either the student's own or a supporting individual's income, and early withdrawal from studies. The Ministry could take at least three actions to reduce overpayments, as discussed below.

Adjusting the Timing of Loan Advances

One way to reduce the risk of significant overpayments and the associated interest and default costs is to match assistance payments more closely to students' cash flow requirements. Some jurisdictions advance student loan funding on a monthly basis. However, Ontario students who are enrolled in three terms, or 52 weeks, of study, often receive all of their loan disbursements after attending only one term of study. These students still have 34 weeks of studies to complete.

Our analysis of loans approved in 2001/02 determined that some 8,600 students of the 19,000 students enrolled in three terms of study that year had received their entire loan by early in the second term. For example, one student's loan entitlement was $20,460 to attend a 51-week program from September 2001 to August 2002. The entire amount had been paid to the student by the beginning of January 2002, even though the student still had eight months of classes to complete.

Advancing all of the loan funding before students have completed the majority of their studies creates the potential for large overpayments if a student's loan entitlement changes (for example, due to a change in the student's financial or academic status). The timing of loan disbursements could thus be a significant contributing factor to the number and size of loan overpayments. In addition, better matching of loan advances to students' cash flow requirements may assist students to prudently manage their finances.

Monitoring Academic Status

OSAP recipients are required to maintain full-time status (defined as taking at least 60% of a full course load) in order to remain eligible for OSL assistance and any OSOG. The

Ministry requires Financial Aid Offices (FAOs) to monitor academic status during the school year and to report students who withdraw from school or reduce their course load to part-time status.

During our review of student files at the FAOs we visited, we found several students whose status should have been reported as part-time but who were recorded in the OSAP system as full-time. After our visits, the FAO staff corrected the students' status. These status changes reduced loan entitlements, thereby creating loan overpayments on which the Ministry continues to pay interest.

As stated earlier, one factor contributing to loan overpayments is a student's early withdrawal from studies. A reported withdrawal triggers a loan entitlement revision. Timely reporting of student withdrawals is thus critical for limiting loan overpayments. The Ministry indicated to us that it expected FAOs to report withdrawals to the OSAP system within 30 days, although ministry policy was not clear in this regard. We found, however, that for 2000/01 and 2001/02 about 60% of the withdrawals reported by postsecondary schools to the Ministry (6,300 students) were reported more than 30 days after the actual withdrawal date.

Thus, both advancing the majority of loan funding early in the study period and reporting withdrawals late increase the risk of significant loan overpayments.

Reviewing Requirements for Repayment

The Ministry might also consider changing policies that may inhibit prompt and accurate reporting by students. As stated earlier, the Ministry allows students to carry one loan overpayment until they finish school, regardless of the amount overpaid. However, loan overpayments always result from the student's own actions, whether deliberate or inadvertent. If assistance is to be fairly administered, both the cause and amount of the overpayment ought to be a factor in deciding what action to take. However, only in cases where significant under-reporting of income is detected will the student be denied future assistance and be required to begin repaying the loan.

We determined that in 2000/01 and 2001/02, approximately 18,000 students received an OSL overpayment of between $1,000 and $5,000. A further 554 students in these two years received an OSL overpayment that exceeded $5,000. We calculated that the interest paid by the Ministry on overpayments greater than $1,000 was approximately $1.7 million and $550,000 for these two years, respectively. This is a significant portion of the $2.5 million we estimate the Ministry pays annually on overpayments. Limiting the amount of allowable overpayment, particularly in cases where the student has not reported accurate information to the Ministry, would therefore save significant interest costs and discourage program abuse.

Recommendation

To minimize the occurrence and size of loan overpayments and to reduce the related interest and default costs, the Ministry should:

- **analyze loan overpayments yearly to determine the main reasons for them and take corrective action based on the results;**
- **match the timing of loan disbursements more closely to students' cash flow requirements;**
- **ensure that all Financial Aid Offices monitor students' academic status during the entire year and promptly record any changes to that status on the OSAP information system in accordance with ministry expectations; and**
- **consider limiting the amount of loan overpayment that a student who has not reported accurate information to the Ministry is permitted to retain.**

Ministry Response

The Ministry will undertake analyses of the reasons for loan overpayments and consider changing the number of disbursements from two to three for students enrolling for three terms in a year, possibly beginning in 2004/05.

The Ministry will work with Financial Aid Offices at institutions to provide more timely reporting of changes to academic status.

The Ministry's loan overpayment policy attempts to balance students' needs for funding to complete their studies against additional costs to taxpayers. The current policy allows students to defer one loan overpayment while they are in school and to repay it after they have completed their studies and are in a better position to repay the loan.

CONTROLLING ONTARIO STUDENT OPPORTUNITY GRANT PAYMENTS

The Ontario Student Opportunity Grant (OSOG) replaced the Loan Forgiveness Program in 1998/99. OSOGs help students reduce their annual student debt level to $7,000 for a two-term academic year or $10,500 for a three-term academic year. Students must meet certain other requirements before receiving an OSOG. The main requirements are completing their registered terms (whether two or three) on a full-time basis, having income verified with CCRA (as we recommended in 1997 for the previous Loan Forgiveness Program), and not having defaulted on any previous student loans.

Students do not have to apply for an OSOG. Once the eligibility requirements have been met, the OSOG is paid directly to the service provider to pay down the student's loan. Over the 2001/02 and 2002/03 fiscal years, the Ministry paid out over $241 million in OSOGs.

We visited several postsecondary schools and examined the academic records of students who received OSOGs to determine whether they had met the Ministry requirements. We also tested a sample of student files from other schools across the province. We concluded that most OSOG payments were being calculated correctly and were being paid only to eligible students. However, we found that OSOG payments had been made incorrectly in three situations: where students were deemed to be full-time but were actually part-time, where three-term students who received an OSOG did not complete their third term on a full-time basis; and where students had failed to complete their academic year but had not formally withdrawn.

We found three cases in our sample where the student was taking only a part-time course load. Because they were never reclassified from full-time to part-time status, these students received about $17,000 in OSOGs they were not entitled to. We found a further six students in our sample who had completed only two terms as full-time students but were granted OSOGs for three terms. These students, too, incorrectly received OSOGs totalling approximately $17,000. Although the FAOs involved corrected the OSAP records once we brought the cases to their attention, the Ministry had no process for recovering the incorrectly paid OSOGs from the Ontario Student Loan Trust.

The OSOG regulation states that if a student withdraws or is expelled from one or more academic terms, any loan received in that term is ineligible for an OSOG. We reviewed a sample of student academic records at the schools we visited to determine if students had genuinely attempted to complete the academic year. To qualify for an OSOG, a student does not need to succeed academically, but the student should at least be clearly trying to complete his or her studies. However, we saw a risk that certain students might not formally withdraw but might nevertheless make no attempt to complete the year by attending classes, submitting assignments, and/or writing final examinations.

To determine whether this was occurring, we reviewed a sample of OSOG recipients' final grades for 2001/02 for evidence that students had actually attempted to complete their year rather than simply quitting but not formally withdrawing. We did find seven students whose grades were all zeros or Fs. These students may have incorrectly received up to $12,000 in OSOGs. We believe it is quite possible that such students did not genuinely try to complete their year, but the FAOs involved did not have a process to identify and investigate such students.

Due to the nature of postsecondary education (particularly the lack of formal attendance requirements), it is difficult for FAOs and the Ministry to verify a student's academic status. However, we found that midway through the year, before the second loan disbursement, a few FAOs were trying to identify students who had stopped attending classes. These FAOs first identified all students with low grade-point averages, and then required those students to submit a form signed by their professors confirming that the student had attended classes regularly. Students who did not submit properly signed forms no longer qualified for OSAP, and their second loan disbursement was therefore not paid. However, most FAOs did not make this kind of effort.

To produce similar savings for OSOGs, the Ministry would need to require all schools to establish a similar process at the end of the year (in conjunction with the academic progress evaluations that already take place). Determining at that point which students had stopped attending classes before the end of the term would prevent the Ministry from paying OSOGs on behalf of students who are not legally entitled to them.

Recommendation

To ensure that only eligible students receive Ontario Student Opportunity Grants, the Ministry should work with postsecondary schools to identify students who reduce their course load to part-time status and students who do not formally withdraw from their program but make no attempt to complete the academic year.

Ministry Response

The Ministry will work with Financial Aid Offices at institutions to identify and implement best practices that will lead to more timely and accurate reporting of students' academic status.

MANAGING THE RISK OF PROGRAM ABUSE

Many components of OSAP are administered in a decentralized manner, relying on postsecondary schools to play a key role in ensuring that OSAP responds to student needs and that legislated and OSAP policy requirements are met.

In response to our 1997 audit, the Ministry established specific performance requirements in order to better manage its relationships with the schools. In addition, the Ministry implemented OSAP compliance audits for all three types of schools. The objective of the audits is to provide the Ministry with independent assurance that FAOs are administering OSAP in accordance with ministry policies and procedures.

Compliance audits for all OSAP-eligible private career colleges have been completed annually since 1998. Audit results have steadily improved each year. In addition, special audits were conducted in the few cases where serious deficiencies were detected by previous compliance audits. The Ministry also requires private career colleges to publish graduation and employment rates each year for each of their OSAP-approved programs.

Publicly funded colleges and universities were last audited in OSAP's 1998/99 fiscal year; the next round of audits was scheduled to be completed in mid-2003 for OSAP's 2001/02 fiscal year. The initial audits did not detect significant instances of non-compliance.

While the Ministry has introduced several initiatives to improve administration and reduce the risk of program abuse by schools, it has done less to identify risks and incidences of abuse by students. The Ministry already captures extensive information on students that can be used or analyzed to reduce the risk of abuse. But the Ministry had not determined the types of analyses that would be most effective in identifying students who abuse OSAP.

We undertook several such analyses as part of our audit. For example, we detected a significant number of sole-support and married students who received additional funding by claiming an increase of three or more children from the previous year. Specifically, we found 78 students who reported an increase of three or more dependent children from the previous year: 21 of these students reported an increase of five or more dependent children. We advised the Ministry of this, and subsequent investigation by the FAOs involved when following up on our request for the documentation determined that most of these applications had been completed incorrectly and that the errors were likely inadvertent. All errors were promptly corrected. In 20% of the cases we examined, the student's loan entitlement had to be reduced as a result of this correction, creating a loan overpayment. Moreover, the risk that this type of error will go undetected is greater for married students—because, unlike sole-support students, they are not required by the Ministry to submit documentation to support the number of children they claim.

We also found 181 parents of OSAP-eligible students who reported an increase of three or more dependent children in one year. Of these, 46 reported an increase of five or more dependent children. Again, the student's loan entitlement was likely inflated in several of these cases. We referred these cases to the Ministry for follow-up.

The risk of OSAP abuse can be high. The Ministry stated in its 2001/02 business plan that it was planning to establish consistent baseline data on the incidence of fraud and inappropriate use of OSAP. Also, the Ministry was planning to establish a hotline for individuals to report suspected OSAP abuse. Neither plan had been implemented at the time of our audit.

The Ministry's OSAP Inspection and Compliance Unit's Student Verification Officers are responsible for examining student loan files to verify information provided, determine compliance with OSAP criteria, and undertake initiatives to reduce OSAP abuse. The Ministry did not maintain a team of student verification officers during the 2002/03 year. As a result, the Ministry did not track the source, frequency, nature, and results of the cases that were referred to the unit for review.

Alberta has a similar group that verifies or audits student loan accounts. The audits or verification efforts are categorized according to what triggers them—for example, public complaints, program staff referrals, or data matching with other government information sources such as social assistance or CCRA records. They also track their audit results by the frequency and amount of over-awards identified to detect chronic problem areas and to demonstrate the cost-effectiveness of the audit process.

Recommendation

To minimize the risk of OSAP abuse by students, the Ministry should use its extensive database to identify individual cases of potential abuse and analyze summary statistics for possible trends warranting investigation and, where necessary, appropriate corrective action.

Ministry Response

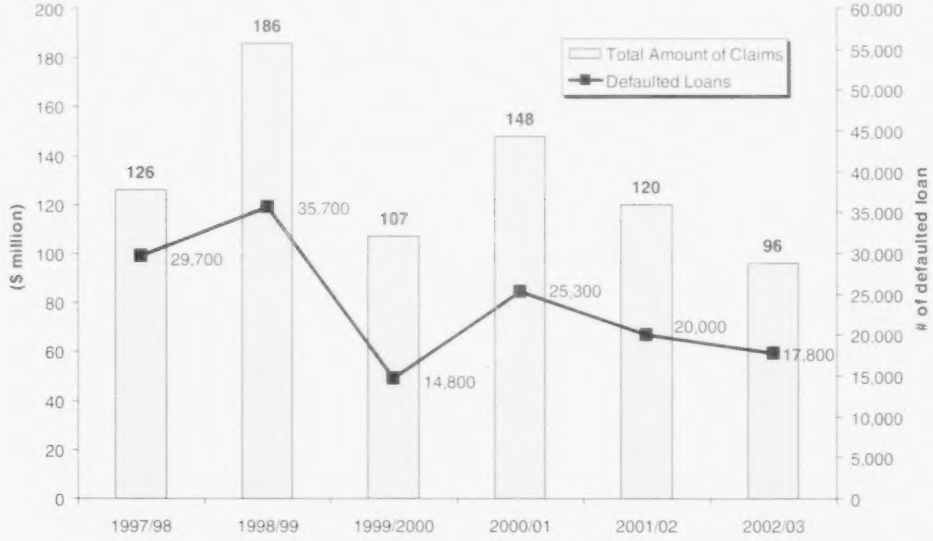
The Ministry will consider expanding its use of the OSAP database to identify individual cases of potential abuse by students and to identify trends warranting investigation.

REDUCING DEFAULTED STUDENT LOANS

Students are expected to repay their loans, including any overpayments. But the province guarantees all student debts, so the Ministry reimburses the financial institution or the Ontario Student Loan Trust for any defaulted student loans. The Ministry then sends default claims to private collection agencies, which attempt to recover these funds from the borrowers on the government's behalf.

Since 1997/98, the Ministry has paid approximately $783 million to the financial institutions to cover 143,300 defaulted student loans. Although they have been generally declining, as indicated in the following chart, defaults on student loans are a major OSAP cost—in 2002/03, they represented nearly 27% of OSAP expenditures.

Student Loan Defaults, 1997/98–2002/03



Source of data: Ministry of Training, Colleges and Universities

Because of the escalating default trend at the time of our 1997 audit, the Ministry took several actions, including: publishing annual default rates by school and program; removing OSAP approval from schools that were not meeting performance requirements; requiring schools with high default rates to implement default reduction strategies and to share default costs; and introducing credit screening for new loan applicants. These initiatives undoubtedly contributed to a decline in the default rate, from 23.5% for 1997 to 13.9% for 2002.

The Ministry's goal is to reduce the default rate to less than 10% by 2005. By comparison, the loan default rate in the United States (where the same methodology is used for calculating default rates) for the 10-year period ending in 2002 declined from 22% to 5.9% due to many changes in loan management and the implementation of various default management strategies.

In Ontario, based on the average 2001/02 default loan claim, every 1% reduction in the default rate saves at least $3.5 million annually. If the Ministry can reach the same default rate as the United States, the province would save a further $28 million annually.

Adopting Practices of Other Jurisdictions

As noted above, the Ministry has implemented many tools and strategies to reduce its default rate, but additional measures may be needed to ensure that the default rate continues to decline. Other jurisdictions have introduced several measures aimed at lowering their default rates and the cost of defaulted loans. For example:

- The Ministry could remind students each year that they have a loan they must repay when they leave school by providing them with an annual statement showing how much they have borrowed to date.
- The Ministry could also identify high-risk borrowers, such as married and sole-support students, who would benefit from special counselling, either individually or in groups, to help them successfully establish and complete repayment and avoid defaults. Between 1998/99 and 2001/02, married and sole-support students accounted for less than 20% of total loans issued, but 40% of total loan defaults. As well, the current contract with the service providers does not require them to focus on these high-risk cases.
- Students who leave school before completing their programs, especially within the first year of enrolment, are known to have a high likelihood of defaulting on their loans. For 2000/01 and 2001/02, the default rates for students who did not complete their studies were more than double the default rates for students who completed their studies. We understand that the federal government is considering implementation of an early withdrawal management program.

As part of our audit, we conducted a survey of college and university FAOs to identify best practices for encouraging loan repayment and to determine areas of needed improvement.

In addition to the approaches noted above, many of the FAOs that responded made the following suggestions:

- Mandatory entrance counselling on OSAP responsibilities could be required before students receive their loans. This practice has been used in the United States for several years. FAOs also indicated that effective exit counselling once a student's education was nearly complete was important because students often lack information, experience, and assistance in managing their finances and meeting their debt responsibilities.
- Better communication with students could take place to educate them about their debt responsibilities and about the available repayment options. Many FAOs stated that if this information was provided at the time of loan disbursement or at the start of each semester, students would be more aware of their current level of indebtedness.

Use of the Income Tax Set-off Program

In January 1999, to improve collections of defaulted student loans, the Ministry implemented an income tax set-off (ITSO) program where efforts to collect defaulted student loans had been unsuccessful. Under the ITSO program, the Governments of Canada and Ontario can withhold a defaulter's income tax refund and apply the proceeds against the amount owing on a defaulted student loan. As stated earlier, all defaulted Ontario Student Loans are first sent to private collection agencies, which attempt to recover the loan amount. After the private collection agency has attempted to collect funds for a minimum of one year without success, the Ministry may ask that the account be returned to the Ministry and set up for ITSO.

The Canada Customs and Revenue Agency is required to notify people identified for ITSO that their income tax refund may be withheld. Defaulters then have the opportunity to make arrangements with the Ministry to start repaying the outstanding debt instead of having their income tax refund withheld. Up to March 31, 2003, the Ministry had collected $8.4 million from this initiative: $6.8 million from ITSO and $1.6 million from people who had made payment arrangements with the Ministry to avoid ITSO.

Since the ITSO program started, the Ministry has asked that approximately 27,000 accounts be returned from the private collection agencies for ITSO. However, from 1996/97 to 2000/01, approximately 120,000 defaulted accounts would have met the Ministry's initial eligibility criteria of at least one year of collection activity. Ministry staff informed us that staffing constraints limited how many defaulted student loan accounts could be set up for ITSO: the Ministry was not equipped to handle a large volume of debtor inquiries related to ITSO accounts. In January 2003, the Ministry increased the number of accounts established for ITSO by 40% from the previous year, but there are still at least 60,000 accounts available that could be set up for ITSO.

Recommendation

To continue reducing the losses arising from defaulted student loans, the Ministry should:

- **implement best practices used successfully in other jurisdictions to reduce the risk and cost of defaulted student loans; and**
- **establish income tax set-off arrangements for all defaulted loan accounts for which normal collection efforts have been exhausted.**

Ministry Response

Within Canada, Ontario is a leader in default prevention. The Ministry expects further decreases in the default rate as a result of new default management arrangements in place or planned with the federal government and its service providers. For example:

- ***the service providers can work for up to 270 days with borrowers who are experiencing difficulties making their loan payments, whereas banks declare loans in default after just 90 days of non-payment;***
- ***Ontario and the federal government have introduced extended interest relief and debt remission programs to provide more help to borrowers who are experiencing difficulties;***
- ***students will soon be able to go on-line to check their accounts; and***
- ***the service providers are developing a risk model to identify students who may be more prone to defaulting.***

The Ministry is seeking to make arrangements that would allow it to move a larger number of defaulted loan accounts to the income tax set-off program. The Ministry will approach Management Board's Collection Management Unit to explore the possibility of undertaking an aging analysis of defaulted loans in collections and to review the criteria for transferring defaulted loans to the income tax set-off program.

EXPANDING PERFORMANCE REPORTING

In our 1999 follow-up of recommendations made regarding OSAP in the *1997 Annual Report*, we reported that the Ministry had introduced several performance measures. We also reported that plans for harmonizing the federal and provincial assistance programs would allow the Ministry to compare these performance measures, as well as new measures on student indebtedness and ability to pay, with parallel measures in other jurisdictions.

In May 1999, the *Canada-Ontario Agreement on Harmonization of Federal and Provincial Student Loans Programs* was signed. The measures agreed to at that time were:

- Access—the ability of individuals to pursue postsecondary studies regardless of the level of financial support available from their families;

- Completion/non-completion rates—the proportion of students completing their program of study;
- Student indebtedness and capacity to pay—the amount of payment relative to the individual's income; and
- Default rates.

In July 2001, both parties signed an integration agreement for student loans. The performance measures previously agreed upon remained unchanged.

In 2001/02, the Ministry's only published performance measure for OSAP was default rates program-wide, by school, and by individual program of study. The Ministry also reported graduation and employment rates for each OSAP-approved private career college program. (Public postsecondary schools publish graduation and employment rates for each of their programs themselves.)

In April 2003, the federal government and most provinces agreed to a national "Designation Framework." (Designation is the process used to approve institutions for student loan purposes.) The Framework's four principles are taxpayer protection, accountability and informed choice, consumer protection, and complementarity to other postsecondary education policies.

According to the Ministry, this Framework is now the basis for the development of OSAP performance reporting. All participating provinces are to develop and report common performance measures to allow comparability. The three categories of performance measures agreed upon by all jurisdictions were:

- Portfolio performance—for example, repayment data and default data;
- Institution performance—for example, administrative compliance and student support services; and
- Student performance—for example, completion data, employment data, and withdrawal data.

While some of the proposed measures are available from the Ministry's current performance information, other existing measures may have to be amended and some new measures may have to be introduced.

Recommendation

To evaluate and report on the effectiveness of Ontario Student Assistance Program and strengthen accountability, the Ministry should establish deadlines to begin publicly reporting the agreed-upon performance measures.

Ministry Response

As the Provincial Auditor states, Ontario already has introduced public reporting of performance measures, including graduation and graduate-employment rates and student loan default rates. Federal, provincial, and territorial officials are currently working to develop and finalize the performance measures. Once finalized, the measures will be combined to create an institutional risk "scorecard" to identify where action with a particular institution is required. Officials are required to report back to Ministers on progress at the Council of Ministers of Education, Canada meeting in fall 2003. Jurisdictions are expected to have developed their performance measures by September 2004. Implementation is scheduled to begin in fall 2004.

CHAPTER FOUR

Follow-up of Recommendations in the *2001 Annual Report*

It is our practice to make specific recommendations in our value-for-money (VFM) audit reports and ask ministries and agencies to provide a written commitment to take corrective action for publication in Chapter Three of our Annual Report. Two years after we publish the recommendations and related responses, we follow up on the status of actions taken by ministries and agencies with respect to our recommendations.

Chapter Four provides some background on the value-for-money audits reported on in Chapter Three of our *2001 Annual Report* and describes the current status of corrective action that has been taken to address our recommendations since that time. The sections in this chapter consist of follow-up reviews.

Our follow-up reviews are planned and conducted to provide a moderate level of assurance on the extent and adequacy of corrective actions taken by ministries or agencies. The reviews consist primarily of inquiries and discussions with management; analyses of information they provide; and, where deemed appropriate, limited examination and testing of systems, procedures, and transactions. This is not an audit, and accordingly, we cannot provide a high level of assurance that the corrective actions described have been implemented effectively to fully resolve noted problems. Where these reviews identify new issues or concerns that need to be acted upon, these issues will be considered in our audit planning process. In any event, the results of the corrective actions taken or planned will be more fully examined and reported on through future audits.

Overall, while a number of our 2001 recommendations appear to have been substantially acted upon, there are still many recommendations where action remains to be taken or is ongoing.

MINISTRY OF AGRICULTURE AND FOOD

4.01–Food Industry Program

(Follow-up to VFM Section 3.01, *2001 Annual Report*)

BACKGROUND

The objective of the Food Industry Program of the Ministry of Agriculture and Food (at the time of our audit named the Ministry of Agriculture, Food and Rural Affairs) is to manage food safety risk in Ontario's food industry to protect consumers and enhance market access and industry competitiveness. In 2000, Ontario's food industry included over 60,000 farms that produced $7.8 billion worth of agricultural production and food processors that shipped products to market valued at $25 billion.

To maintain the safety and quality of the province's food supply, the Ministry, in co-ordination with other provincial ministries as well as the federal and municipal governments, licenses and inspects food processing plants and tests selected products for evidence of contamination. To support the program, for the 2002/03 fiscal year, the Food Industry Division spent a total of $20 million. In 2000/01, it spent $20 million, employed 110 staff, and engaged 140 inspectors on a contract basis.

Although the Ministry had engaged in a number of initiatives to protect consumers from food-borne contaminants, we concluded that the Ministry needed to improve its efforts to ensure compliance with legislation, policies, and procedures by addressing weaknesses in its licensing and inspection processes. Specifically, we noted the following:

- Food safety deficiencies that were defined as critical by the Ministry and that can pose risks to human health were noted during annual licensing audits of abattoirs (slaughterhouses) but often were not corrected in a timely manner.
- Newer testing methods were not in place to randomly test meat from abattoirs for evidence of bacterial, chemical, and other more recently recognized hazards to health that are not readily detected by traditional meat inspection methods.
- The Ministry had not assessed the effectiveness of the Dairy Farmers of Ontario (DFO) since 1998 when the DFO had assumed responsibility for ensuring the safety of the processing of raw cows' milk. Consequently, we reviewed the activities of the DFO and found that adequate inspection processes for raw (unpasteurized) cows' milk had been established.
- One-third of the goat dairy farm inspection reports we reviewed were given a conditional rating because of non-compliance with minimum standards, and 90% of the goats' milk samples tested on behalf of the Ministry did not meet legislated bacterial standards. There was no evidence that the Ministry had followed up on these problems.

- In 2000, the Ministry tested almost 800 fruit and vegetable samples and found 28 cases where chemicals exceeded acceptable limits by as much as 80 times the maximum allowable limit. As of March 2001, the Ministry had yet to formally notify growers and retailers of the test results.
- Penalties imposed for non-compliance with food safety legislation were not sufficient to have a deterrent effect. During the 2000/01 fiscal year, the average penalty was $320 for infractions such as illegally slaughtering poultry and illegally processing cheese.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take corrective action.

CURRENT STATUS OF RECOMMENDATIONS

According to information received from the Ministry, substantial action has been taken on all the recommendations made in our *2001 Annual Report*. Some of the action taken by the Ministry will be addressed through the *Food Safety and Quality Act, 2001* and associated regulations. This Act received royal assent on December 5, 2001 but had not been proclaimed as of May 2003. Therefore, the requirements of the Act were not in force at the time of our follow-up review. The current status of each of our recommendations is outlined below.

COMPLIANCE WITH LEGISLATION, POLICIES, AND PROCEDURES

Abattoir Licensing, Inspection, and Testing—Licensing

Recommendation

To better ensure that all provincially licensed abattoirs meet licensing requirements and the meat produced is safe for human consumption, the Ministry should:

- *develop specific criteria for licence suspensions and other penalties for non-compliant abattoirs;*
- *establish guidelines for setting acceptable time frames for abattoirs to take corrective action on problems noted during the licensing audits; and*
- *ensure abattoirs take corrective action as soon as possible after licensing audits are completed so that food safety issues can be resolved promptly.*

Current Status

The Ministry informed us that it developed specific criteria for licence suspensions and other penalties, and introduced an enhanced rating system on April 1, 2002 that better reflects the food safety status of provincially licenced abattoirs. The new system is based on a letter grade and is similar to that used by the Canadian Food Inspection Agency in federally inspected plants. The new system allows the Ministry to ensure non-compliant operators take timely corrective action in that, after an abattoir is audited, feedback is immediately provided. For example, plants receiving an "A" rating or higher are to have a corrective-action-plan meeting with the inspector within four weeks of the audit being completed to set time frames for correcting major deficiencies. Plants receiving lower ratings would have corrective action initiated earlier than four weeks. For 2002/03, the Ministry indicated that 80% of the 209 provincially licensed abattoirs received a rating of "A" or higher.

Abattoir Licensing, Inspection, and Testing—Inspections

Recommendation

To help ensure that corrective actions arising from annual licensing audits are completed as required and food safety risks are minimized, the Ministry should ensure that inspectors follow up on and adequately document the completion of all operational tasks.

Current Status

The Ministry indicated that, to ensure that inspectors have the necessary tools to adequately monitor the required corrective actions resulting from licensing audits, it has provided training in the areas of information systems, meat hygiene, and meat processing. Inspectors also monitor the abattoirs' progress in correcting deficiencies through the Food Safety Decision Support System that records information from all abattoir audits and inspections. In addition, area managers are now responsible for ensuring that inspectors follow up on and adequately document the completion of all operational tasks.

Abattoir Licensing, Inspection, and Testing—Laboratory Testing of Meat

Recommendation

To help ensure that meat products from provincially licensed abattoirs are safe for human consumption, the Ministry should:

- *develop a risk-based approach to laboratory testing and utilize newer methods to test meat from healthy animals for potential food safety hazards;*
- *summarize laboratory results to help identify systemic problems; and*
- *ensure that all problems detected are followed up on and resolved in a timely manner.*

Current Status

The Ministry informed us that it improved its risk-based process for random and targeted sampling of animals for chemical residues. It is now testing cows, calves, lambs, goats, chickens, turkeys, and sows for antibiotic residues. In addition, testing for high-risk livestock, such as barbeque hogs, has been enhanced to detect sulfonamide residues. The Ministry also conducted a trial test at a high-risk cow abattoir using US microbial performance standards. As well, baseline data for microbiological and chemical contamination of beef, hogs, and chickens have been developed. Results from the trial test should help the Ministry to develop a process for ongoing monitoring for microbial contamination to ensure that meat products processed in provincially licensed abattoirs meet high standards.

In addition to carrying out on-site testing at some cattle and hog plants, the Ministry has developed new laboratory testing and rapid-testing technology, such as carbadox detection methodology, sulfa-on-site tests, and an on-premise swab test for antibiotic residue. Laboratory results from this testing are now reviewed monthly by managers to identify systemic problems and ensure appropriate and adequate follow-up. The new procedures also establish time frames for correcting deficiencies on a timely basis.

In 2001, the Ministry enhanced its comprehensive testing program for bovine spongiform encephalopathy (BSE) (commonly referred to as "mad cow disease"). This ongoing program is designed to test the highest-risk animals, including animals that die on the farm, older animals, and animals that display signs of neurological distress. During the 2002/03 fiscal year, the Ministry informed us that more than 1,100 samples had been tested for BSE in Ontario, which is three times the internationally recognized testing standard. All samples tested negative for BSE.

As well, managers now receive monthly summaries of all laboratory results, and the Ministry has implemented protocols for follow-up of unfavourable results within established time frames. The Ministry informed us that compliance with these protocols is being monitored on a regular basis.

Animal Disposal Industry: Licensing and Inspection

Recommendation

To better ensure that deadstock operators comply with legislation and that meat from deadstock is properly disposed of and does not end up in the human food chain, the Ministry should:

- *inspect the vehicles of deadstock collectors in accordance with ministry policy to ensure that valid permits are in place;*
- *implement a formal policy for the frequency of inspections of deadstock collectors, rendering facilities, receiving plants, and brokers;*
- *obtain and review all federal inspection reports and follow up on any areas not covered by federal inspectors; and*
- *review and revise as necessary legislation, policies, and procedures concerning the transportation of dead animals.*

Current Status

The Ministry informed us that a study was completed regarding current legislation and regulations pertaining to the transportation of dead animals, inspection of vehicles, and the licensing of deadstock operators. As a result, the Ministry is developing new regulations under the *Food Safety and Quality Act, 2001* and the *Nutrient Management Act, 2002*. In addition, the Ministry has revised its inspection procedures and appointed a co-ordinator to ensure inspections of deadstock collectors, receiving plants, and brokers are carried out and that noted deficiencies are corrected. Inspections are now scheduled based on a risk assessment of the deadstock collectors and their history of compliance with policies and timeliness in addressing deficiencies. Receiving plants, brokers, and collectors are inspected annually, quarterly, or monthly as determined by the risk assessment.

The Ministry indicated that, for the 2003 licensing year, it inspected all the deadstock collection vehicles and set up a system to ensure that valid vehicle permits are in place.

The Ministry now receives, within 30 days of the inspection, all federal inspection reports for the six rendering facilities that the Canadian Food Inspection Agency inspects. At a minimum, rendering facilities are inspected annually. The Ministry reviews these reports and follows up on areas not covered by the federal inspectors before renewing the licences for these facilities.

Dairy Licensing, Inspection, and Laboratory Testing—Dairy Farms and Milk Transportation

Recommendation

To better ensure the quality of raw cows' and goats' milk, the Ministry should:

- *periodically review the inspection activities of the Dairy Farmers of Ontario to ensure the established standards are being maintained;*
- *prepare an up-to-date list of all goats' milk dairy producers and establish a formal risk-based inspection process for goat dairy farms; and*
- *ensure that problems identified in inspection reports for goat dairy farms are being corrected on a timely basis.*

Current Status

The Ministry commissioned a thorough review of the Dairy Farmers of Ontario Raw Milk Quality Program and found a high degree of compliance with established standards. Some recommendations for procedural improvements were made, and these are expected to be implemented by fall 2003.

With respect to goats' milk, the Ministry indicated that it had completed a list of producer and processor information, which is maintained on a computer database. Along with developing a new inspection checklist for goats' milk farms, the Ministry hired two inspectors to further enhance the inspection process. Correction of deficiencies noted in inspection reports is now monitored by the Ministry to ensure that goat farmers correct these on a timely basis—if they do not, the shipping of milk is now being suspended. In February 2002, the Ministry completed a review of the goats' milk quality program and plans to update the regulations (including establishing penalties), improve laboratory testing and reporting, provide additional inspection resources, and complete a baseline study of goats' milk in the province. Policy development, consultation, and drafting of new regulations under the *Food Safety and Quality Act, 2001* is expected to be completed in early 2004.

Dairy Licensing, Inspection, and Laboratory Testing—Dairy Plants and Distributors

Recommendation

In order to better ensure that all dairy plants and fluid milk distributors comply with relevant health and safety requirements, the Ministry should:

- *renew licences on a timely basis for all dairy plants and fluid milk distributors;*
- *inspect all dairy plants annually as required by ministry policy;*
- *follow up on any concerns noted during federal inspections of dairy plants prior to renewing licences;*
- *ensure that all corrective action plans to remedy deficiencies at dairy plants are reviewed and appropriate follow-ups are performed; and*
- *review the inspection process for fluid milk distributors and revise its inspection requirements accordingly.*

Current Status

To ensure that licences are renewed on a timely basis for all dairy plants and fluid milk distributors, the Ministry is using the Food Safety Decision Support System to improve tracking of licence renewal dates and follow-up action required to correct deficiencies. In addition, the Ministry hired additional staff and plans to inspect all dairy plants during 2003. Concerns noted during the federal inspections of dairy plants must now be resolved before the Ministry will renew any licences. Any deficiencies noted during either the federal or the provincial inspections must be corrected within 30 days, and the Ministry was developing procedures to formalize this process to ensure corrective action plans are in place. To better co-ordinate the licensing and inspection process for the production, processing, and distribution functions, the Ministry consolidated these responsibilities into the Dairy Food Safety Unit. Also, a review of the fluid milk distribution program was being carried out, and the Ministry was hoping to make any required regulatory changes to the program by early 2004.

Dairy Licensing, Inspection, and Laboratory Testing—Dairy Laboratory Testing

Recommendation

To better ensure the safety and quality of Ontario's cows' and goats' milk, the Ministry should:

- *establish bacterial standards for finished milk products and adopt temperature control standards for the transportation of raw milk;*
- *collect, promptly transport, and test raw milk samples from all goat dairy farms at least monthly, as required by legislation; and*
- *follow up on and ensure corrective action is taken in all instances where goats' milk producers exceed the legislated bacterial standard.*

Current Status

The Ministry indicated that it was working on establishing bacterial standards for finished milk products through changes to regulations under the *Milk Act* (for cows' milk) and the *Food Safety and Quality Act, 2001* (for goats' milk). In addition, the standards for temperature control during the transportation of raw milk and at processing plants that are specified in the National Dairy Code will be adopted as part of the proposed regulations.

With respect to raw milk from goat farms, the Ministry informed us that it has made improvements to sample collection and testing procedures. Two additional sample depots were established to collect and transport goats' milk for testing. The Ministry informed us that, as a result, the number of goats' milk producers routinely tested on a monthly basis has increased since 2001. For December 2002, the Ministry tested 85% of the producers and was hoping to test all producers on a monthly basis during 2003. Unacceptable bacterial levels in goats' milk trigger a visit from the Ministry to the farms to correct the deficiencies before further goats' milk is accepted into the system. The Ministry was developing enforcement tools, including penalties, as part of the regulations under the *Food Safety and Quality Act, 2001*, with anticipated implementation in early 2004.

Horticulture Monitoring

Recommendation

To help ensure that plant-based foods are safe from biological and chemical contamination, the Ministry should:

- *send letters outlining laboratory test results to growers and retailers on a timely basis and follow up to ensure that serious safety violations are rectified; and*
- *develop a risk-based monitoring and inspection process for fruit and vegetable commodities to help reduce the risk of outbreaks of illnesses associated with domestic and imported horticultural products.*

Current Status

When safety violations are noted through testing of horticultural products, the Ministry informed us that its current practice is to immediately telephone the grower or retailer regarding the health hazard, send a letter to the grower or retailer about the hazard, and schedule an advisory visit within a week, so that corrective action can be taken quickly. To help with the monitoring and inspection process, the Ministry indicated that it had implemented a risk-based system that evaluates hazards through risk profiles of the fruit and vegetable commodities and assigns a ranking with regard to the risk. As of May 2003, risk assessments had been completed for apple cider, sprouted seeds, lettuce, stone fruit, apples, cantaloupe, grapes, cabbage, carrots, and rutabagas. Assessments were underway for other fruits and vegetables and greenhouse crops. In addition, the Ministry, along with the Ministry of Health and Long-Term Care, participates in the monitoring of outbreaks of illnesses associated with domestic and imported horticultural products. In this regard, the Ministry uses outbreak information to develop food safety programs to help reduce future occurrences.

Legislative Enforcement

Recommendation

To better ensure the safety and quality of Ontario's food supply, the Ministry should:

- *ensure penalties are adequate to deter non-compliance with legislative requirements;*
- *review its enforcement rights and responsibilities for consistency; and*
- *consider periodically following up on the operations of past offenders to ensure continued compliance with legislation.*

Current Status

The Ministry informed us that the average fine imposed during 2002 under the *Meat Inspection Act (Ontario),* the *Dead Animal Disposal Act*, and the *Milk Act* was $1,100, which was much higher than the $320 we reported in 2001. The Ministry also informed us that it had been seeking the maximum penalties provided for under existing regulations. Furthermore, it was planning to increase the penalties to $25,000 from the current maximum of $5,000 when the regulations under the *Food Safety and Quality Act, 2001* are introduced in early 2004. When proclaimed, this Act will consolidate six other acts to provide:

- a framework for consistent standards and requirements to better protect the public on a timely basis from food-borne hazards; and
- increased powers for inspectors to ensure compliance with legislation.

The Ministry has implemented a pilot monitoring program in co-operation with the federal and municipal governments to ensure that past offenders do not attempt to market products processed illegally. The Ministry indicated that this monitoring would be expanded when additional funding is allocated to the program.

Program Co-ordination

Recommendation

To better ensure that consistent standards of food safety are in place for all products consumed in Ontario, the Ministry should:

- *develop appropriate food safety policies for products that are not subject to specific legislation and consider incorporating such products in any proposed new legislation;*
- *review regulatory requirements to determine the level of risk associated with each product and assess the nature of the monitoring required; and*
- *where monitoring is considered necessary, review the inspection process to ensure that minimum standards of food safety are maintained regardless of which level of government inspects the food products.*

Current Status

According to the Ministry, it was working with the Ministry of Health and Long-Term Care and the Canadian Food Inspection Agency to evaluate risks and develop appropriate food safety policies and monitoring programs for all commodities across the production-to-consumption spectrum. This includes products not currently subject to specific food safety legislation, such as further processed meat outside of licensed slaughter plants, horticultural products, sheeps' milk, and fish.

The Ministry indicated that it was carrying out a review of meat, dairy, and deadstock to develop regulations based on risk under the *Food Safety and Quality Act, 2001*. The review includes a consideration of the risk-mitigation options for other high-risk products such as unpasteurized cider.

The Ministry was developing inspection protocols for verifying compliance with requirements and the meeting of minimum food safety standards. The protocols are to apply regardless of which ministry, level of government, or third party is delivering the inspection service. For example, the Ministry was developing a Hazard Analysis Critical Control Point System to identify potential hazards along the food chain; the system is for use by non-federally registered, regulated, and unregulated facilities. The protocols should ensure that any new regulations will at least meet national standards.

MEASURING AND REPORTING ON PROGRAM EFFECTIVENESS

Recommendation

To ensure that the Food Industry Program can appropriately assess the extent to which it is meeting its goals for food safety and increased domestic sales, the Ministry should:

- *develop well-defined performance measures that the Ministry has a reasonable degree of influence over and can link to expected outcomes; and*
- *perform the evaluations necessary to determine whether its activities are effective in achieving the stated goals of the Program and to take any necessary corrective action.*

Current Status

The Ministry indicated that it had developed new performance measures for the Food Industry Program. These include the number of incidents of food safety non-compliance identified during abattoir audits as a percentage of the total number of standards assessed; the percentage of adverse laboratory tests acted on according to prescribed protocols and time frames; and the number of incidents of violative levels of food-borne chemicals identified in domestic raw foods of plant origin during monitoring activities as a percentage of total number of tests. In addition, to determine whether its activities are effective, the Ministry intends to complete a thorough evaluation of the food safety program in 2003.

MINISTRY OF THE ATTORNEY GENERAL

4.02–Legal Aid Ontario

(Follow-up to VFM Section 3.02, *2001 Annual Report*)

BACKGROUND

The purpose of Legal Aid Ontario is to promote access to justice throughout Ontario for eligible low-income individuals. Its primary method of serving clients' legal needs is through the use of legal aid certificates, which allow clients to receive legal representation from their choice of private-sector lawyers for a variety of legal problems. During the 2000/01 fiscal year, over 107,000 legal aid certificates were issued, and about 5,000 private-sector lawyers provided services to legal aid clients.

In addition to providing legal aid certificates, Legal Aid Ontario also delivers legal aid services through:

- community legal clinics—in 2003, 79 independent clinics (about 70 in 2000/01) specializing in addressing the needs of low-income individuals who need legal help in such areas as income maintenance, housing, and access to basic social services; and
- a duty counsel program—a combination of private-sector and staff lawyers providing assistance to clients who do not have a lawyer to represent them in the courtroom.

For the 2002/03 fiscal year, Legal Aid Ontario had operating expenditures of over $291.7 million ($247.3 million in 2000/01) and received funding of $282.2 million ($249.5 million in 2000/01). Of the total funding, contributions from the province amounted to $199.4 million in 2002/03 ($171 million in 2000/01), which represented about 70% of the total in both years. The other contributors to the funding included the federal government, the legal profession, clients, and others.

We concluded that certain procedures and systems were not in place to ensure that legal aid services and programs were provided with due regard for economy and efficiency and in accordance with legislative requirements. Some of our more significant concerns were as follows:

- To meet the legal needs of low-income individuals cost effectively and to comply with the *Legal Aid Services Act, 1998*, a proper assessment of how those legal needs can best be met is required. However, such an assessment had not yet been done.
- The legal aid system had not been effective in controlling the costs of its certificates. Annual levels of funding for the four fiscal years from 1996/97 to 1999/2000 were similar to the level of funding for the 1991/92 fiscal year. However, two to three times more people were provided with legal aid certificates in 1991/92 when compared to the number of people served in each of the more recent four years.

- Efforts to collect over $100 million of accounts receivable required improvements.

We made a number of recommendations for improvement and received commitments from Legal Aid Ontario that it would take corrective action.

CURRENT STATUS OF RECOMMENDATIONS

Based on information received from Legal Aid Ontario, action has been taken to implement the majority of our recommendations and action is in progress for the remaining recommendations. The current status of all our recommendations is outlined as follows.

LEGAL AID CERTIFICATION PROGRAM

Service-Level Requirements and Needs Assessment

Recommendation

To comply with legislation and to ensure that the legal needs of low-income individuals are served in an appropriate and cost-effective manner, Legal Aid Ontario should perform comprehensive and ongoing assessments of service-level requirements and the legal needs of potential clients.

Current Status

In 2000/01, Legal Aid Ontario initiated a two-phase needs assessment process. It has now completed phase one of the process, which includes a number of components: project planning, a clinic needs-assessment project, consultations with clients and service providers, needs-based legislative analysis, demographic studies, pilot projects, and a federal needs-research program. Phase two of the process, which is still ongoing, includes: second-phase needs-assessment strategy, special projects, a pilot/research program, and ongoing needs-assessment capacity.

Legal Aid Ontario further indicated that all the information gathered from the needs-assessment process is used to determine the most cost-effective manner of meeting the needs of Legal Aid Ontario clients, through, for example, the certificate and duty counsel programs.

Controlling the Cost of Legal Aid Certificates

Recommendation

To more effectively manage the cost of legal aid certificates, Legal Aid Ontario should establish adequate procedures for monitoring and analyzing lawyers' billings to establish reasonable billing standards and to ensure adherence to those standards.

Current Status

Legal Aid Ontario advised us that it has established a Business Analysis Unit to perform ongoing detailed analysis of certificate costs. It has also undertaken a review of the "big-case management" program to study factors affecting costs of certificates for cases with budgeted costs of over $20,000 each and it has developed methods to manage these costs more effectively.

In addition, as part of the Certificate Management Program established in June 2001, Legal Aid Ontario has developed a program to target specific legal aid certificate services to be reduced or diverted to duty counsel. Target guidelines have been established for the province, for each local office, and for the type of cases handled. Legal Aid Ontario is in the process of developing strategies for high-volume offices. As well, it is determining long-term strategies to raise awareness and identify the impact of Crown and bail practices on legal aid demand and costs.

Legal Aid Ontario indicated that it plans to develop an improved management information system to analyze lawyers' billings with the implementation of its new information technology systems in 2004/05. The Total Service Network information technology project, for example, will provide information on utilization rates of tariff maximums for the full Legal Aid Ontario caseload. The legal aid "tariff" is a schedule of fees payable to certificate lawyers for the services they provide to clients. The tariff sets hourly rates and maximum number of hours for which Legal Aid Ontario is willing to pay. In developing this IT network, Legal Aid Ontario will assess how much data to collect in a cost-effective manner from lawyers about services provided on an ongoing basis, and for which types of cases.

Review of Hourly Rates

At the time of our 2001 audit, Legal Aid Ontario had established a Tariff Review Task Force and was preparing a business case to submit to the Attorney General later that year. We encouraged Legal Aid Ontario to consider the matters discussed in our report regarding the participation rate of lawyers and the hourly rates paid by other Canadian jurisdictions as part of its determination of an appropriate level of compensation for private-sector lawyers.

Current Status

The Tariff Review Task Force completed its business case in November 2001 for the consideration of the Attorney General. Subsequently, the province revised the tariff rates for certificate lawyers with an increase of 5% effective April 1, 2002. Another increase of 5% came into effect on April 1, 2003, bringing current tariffs to between $73.87 and $92.84 an hour, depending on the lawyer's experience with legal aid cases. Lawyers working in certain designated areas in the North are given additional incentives.

ALTERNATIVE SERVICE-DELIVERY MODELS

Recommendation

In order to properly assess whether its pilot legal aid projects are cost-effective alternative service options, Legal Aid Ontario should ensure that these projects are better designed and managed.

Current Status

Legal Aid Ontario indicated it is taking the Provincial Auditor's findings into account when it designs and operates pilot projects. The design and planning of pilot projects is based on:

- setting specific objectives related to the service model to be tested;
- stakeholder consultation on the design;
- clearly established measures of performance and evaluation at the beginning of the project;
- accurate costing; and
- regular review and evaluation of results.

According to Legal Aid Ontario, current and recently completed pilot projects are conforming to this approach. Projects started prior to our 2001 audit that have recently been completed include: Youth Court Counsel, Unbundled Family Services, Family Case Management, Expanded Duty Counsel, and Family Law Offices. Projects that were started after our 2001 audit and are still in process include: Legal Services for Homeless People, Youth Court Duty Counsel Pilot, Community Outreach and Quality Support in Refugee Law, and Children's Aid Society (CAS) Mediation. Legal Aid Ontario expects to complete all the pilot projects in the 2003/04 fiscal year.

ELIGIBILITY FOR LEGAL AID

Recommendation

To ensure consistency in granting legal aid services, Legal Aid Ontario should develop appropriate guidelines to assist area committees in making decisions about whether or not to overrule legal aid area-office assessments of eligibility.

Current Status

According to Legal Aid Ontario, it completed and produced a revised manual in September 2001 to ensure that area committees understand and stay within policy guidelines. Area committee decisions and the pattern of appeals granted and refused are now reported six times a year to area directors and the senior management committee. Area committee practices are also discussed at annual conferences with area directors. There are established procedures to report problematic area committee decisions to the vice-president, client legal services.

CLIENT CONTRIBUTIONS

Recommendation

To properly safeguard its assets, Legal Aid Ontario should implement appropriate controls over its accounts-receivable system.

To ensure timely collection of amounts owed, Legal Aid Ontario should follow up on outstanding inactive accounts to assess the current financial situation of clients and take appropriate action, including collection and/or arranging for new payment agreements.

Current Status

Legal Aid Ontario informed us that it launched a major project to overhaul and improve control over its accounts-receivable system and collection processes. Legal Aid Ontario indicated that it has been developing and implementing operational policies, procedures, and programs for managing client contributions in the future. For instance, operational recommendations have been developed based on a "best practices" review of Legal Aid Ontario area offices. Legal Aid Ontario indicated it would ensure that its future information technology system would have the capacity to process collections. Review of performance within the collections department has been completed. The role of private agencies in support of Legal Aid Ontario collection activities is under review.

Based on its analysis, Legal Aid Ontario developed a new definition of accounts receivable and determined that the amount of money in client contributions outstanding as at March 28, 2002, was $103.4 million. Of this amount, approximately $89.9 million (66,000 accounts) were secured by liens or other property. The remaining $13.5 million was unsecured debt. Further analysis enabled Legal Aid Ontario to identify that 26,000 of the 66,000 accounts secured by liens, or $30.9 million of the $89.9 million, were no longer receivable. As a result, these accounts were subsequently closed on January 31, 2003.

Legal Aid Ontario indicated that it has been testing various strategies (such as giving discounts and other incentives to clients for paying) to determine how to collect the balance in the remaining 40,000 accounts secured by liens. The results of these strategies to collect outstanding debt will be used to draft and implement policies to support future collection activities. Legal Aid Ontario has started to assess its legal tools for collection of debt by: analyzing past payment agreements to determine ability to enforce collection using these instruments; reviewing the effectiveness of writs; analyzing impact of writs on policy and operations; preparing recommendations; and identifying some "quick fixes" to correct certain key problems.

EFFECTIVENESS OF LEGAL AID SERVICES

Recommendation

To ensure proper accountability for its mandate and the services it delivers, Legal Aid Ontario should develop appropriate performance standards, effectiveness indicators, and a quality-assurance program. In addition, it should measure and report on its effectiveness in providing legal aid services on a timely basis.

Current Status

The *Legal Aid Services Act, 1998* requires Legal Aid Ontario to provide "consistently high-quality legal aid services in a cost-effective manner" to low-income individuals throughout Ontario. Legal Aid Ontario indicated that its various departments had developed performance standards and effectiveness measures for reporting on their effectiveness in providing client services. In addition, Legal Aid had also created a Quality Service Office to work with managers, staff, and service providers to develop and implement management tools and processes to achieve continuous improvement in the quality of service to clients.

According to Legal Aid Ontario, 70 community clinics and five Student Legal Aid Services Societies (SLASSs) had undergone Legal Aid Ontario's on-site quality assurance reviews. The reviews' results and recommendations were to be used by the Quality Service Office to support the clinics and SLASSs in the continuous development of performance and outcome measures in the coming year. Legal Aid Ontario reported that it had completed regional consultation with duty counsel regarding quality standards and that consultations with lawyers dealing in refugee law were underway. As well, it indicated that it had begun discussing with the Law Society of Upper Canada the objectives and approaches common to their respective quality assurance programs, as well as identifying areas where Legal Aid Ontario and the Law Society of Upper Canada can co-ordinate their efforts and support each other's initiatives.

MINISTRIES OF THE ATTORNEY GENERAL AND PUBLIC SAFETY AND SECURITY

4.03–Integrated Justice Project

(Follow-up to VFM Section 3.03, *2001 Annual Report*)

BACKGROUND

After our *2001 Annual Report*, the Ministry of Correctional Services was consolidated with the Ministry of the Solicitor General in April 2002 to form the Ministry of Public Safety and Security. The Integrated Justice Project was instituted in 1996 as a joint initiative of the Ministry of the Attorney General and what is now the Ministry of Public Safety and Security (Ministries). The objective of the Project was to improve the information flow in the justice system by streamlining existing processes and replacing older computer systems and paper-based information exchanges with new, compatible systems and technologies. In addition, a Common Inquiry System was to be created to allow authorized persons in one justice area to access and thus link to files held in other areas on cases, victims, witnesses, suspects, the accused, and convicted offenders. The Project was to affect approximately 22,000 employees in the Ministries at 825 different locations across Ontario, as well as municipal police forces, judges, private lawyers, and the general public.

The Project was implemented using the Common Purpose Procurement (CPP) process, under which the government and private-sector partners jointly provide necessary human and financial resources and share in resulting risks and rewards.

The Integrated Justice Project had experienced significant cost increases and delays. While the March 1998 cost estimate to complete the Project was $180 million, by March 2001 the estimate had risen to $359 million. Over the same period, expected benefits were reduced from $326 million to $238 million. In addition, not all systems were expected to be fully implemented by the contractual deadline of August 2002. We had several concerns with respect to these costs increases and delays.

We concluded in 2001 that the requirement of CPP policy that due diligence be performed to support the projections of costs and benefits in a business case was not adequately followed in the Integrated Justice Project. We found the following weaknesses in the original business case, on which project approval was based, and in subsequent business cases used to monitor project progress:

- The original business case had an aggressive schedule that was based on a best-case scenario. It did not adequately take into account the magnitude of change introduced by the Project, the complexity of justice administration—particularly that of the courts—or the ability of vendors to deliver the Project's computer systems in the required time frames.

- The estimate of benefits, already reduced to $238 million in the most recent business case, was still overstated by approximately $57 million.

In addition, we noted that no agreement had yet been reached between project management and senior management of the courts as to whether or not all of the expected courts benefits, totalling $172 million and representing over 70% of the Project's total benefits, would be realizable.

We also concluded that aspects of the contractual arrangements with the vendor resulted in the Project not being administered with due regard for economy. For example, negotiated rates for consortium staff were at a premium compared to rates charged by the same vendor to other ministries for similar work, increasing total project costs by up to $25 million. In addition, the billing rates of consortium staff working on the Project were approximately three times higher than those of the Ministries' staff for similar work.

As well, we had concerns about the security measures for the systems already in use by police and the system to be established for corrections. The confidential information contained in these systems—including data on suspects, victims, witnesses, the accused, and convicted offenders—was vulnerable to unauthorized access and manipulation.

We made a number of recommendations for improvement and received commitments from the Ministries involved that they would take corrective action.

CURRENT STATUS OF RECOMMENDATIONS

Following 20 months of negotiations between the Ministries and the consortium led by EDS Canada Incorporated (EDS), the parties were unable to agree on new terms to amend and renew their agreement to continue the Project using a Common Purpose Procurement approach. As a result, the Project's Work Term expired on October 8, 2002. Effective April 2003, accountability for individual Project components, including fiscal management and any future development and/or enhancement, has been assigned to each component's most related ministries.

The Project's total investments and benefits as of October 8, 2002 were as follows:

Total Investments and Benefits of the Integrated Justice Project as of October 8, 2002 ($ million)

	Justice Ministries	EDS-led Consortium	Total
Investments	110.2	154.8	265.0
Benefits realized and/or paid out	2.5	7.1	9.6

Source of data: Ministry of the Attorney General

We were advised that, in addition, both the Ministries and the consortium have incurred additional transition costs in connection with the end of the Work Term, which have yet to be agreed to by both parties.

EDS has filed a Notice of Action against the province of Ontario. In addition, the government, on behalf of the Project, has initiated a claim seeking damages from a software firm for performance deficiencies due to the firm's delivery failure.

Based on the information we received from the Ministries, we determined that further work was necessary to ensure that those of our recommendations that are applicable to future similar projects are implemented so that those projects can benefit from lessons learned.

BUSINESS CASE

Recommendation

Should negotiations result in the Ministries deciding on continuing the Integrated Justice Project, the Ministries should take the appropriate measures that will result in completing the Project in a timely and cost-effective manner. Controls on project management should be reviewed to identify ways to:

- *minimize the risk that the Project will not be completed within the revised timelines and to ensure that the revised costs will not be exceeded; and*
- *ensure that estimated benefits are, in fact, realizable and ultimately achieved.*

Current Status

Following the end of the Integrated Justice Project's Work Term, the Ministries undertook a period of reassessment to determine how best to proceed in a post-Project environment. Accountability for individual Project components, including fiscal management and any future development and/or enhancement for those components, now resides with each component's respective Ministry.

We were advised that initial releases of the Computer-aided Dispatch and Records Management systems for the police and the Offender Tracking Information System for corrections were implemented by the end of the Project's Work Term, albeit without all the intended functionality, and are now the responsibility of the Ministry of Public Safety and Security. The courts applications (Digital Audio Recording, E-File, and Civil and Criminal Case Management) and the Crown attorneys' Case Management System, all of which are under the Ministry of the Attorney General, were not completed when the Project's Work Term ended and likely will not be completed as originally envisioned. In addition, one of the Project's primary objectives—that of integrating or sharing data between the various justice Ministries' systems, which would have included implementing a Common Inquiry System—was not achieved.

We were informed that the Ministries remain committed to modernizing the justice system to increase public safety, improve service, and increase access to justice. Any new development or system enhancements by the Ministries are to be based on business cases that are affordable, staged, and cost-effective and that set realistic time frames.

PROJECT TIMETABLE

Recommendation

To improve controls over timelines and associated costs for this and future Common Purpose Procurement projects, the Ministries should work with the Management Board of Cabinet to revise Common Purpose Procurement guidelines to require that:

- *reliable information that is validated at the earliest opportunity be used in the preparation of the business case; and*
- *where significant assumptions must be made, multiple business-case scenarios be prepared to help ensure that the financial risks relating to each of the various scenarios are clearly presented.*

Current Status

We were informed that the Management Board Secretariat (MBS) was in the process of reviewing the Government's Common Purpose Procurement (CPP) policies, and that this review would consider the Government's experience with large and complex contracts, including the Integrated Justice Project, as well as the experiences of other jurisdictions and related recommendations contained in the Provincial Auditor's reports. Once the MBS has completed the CPP review, the Government expects to identify ways to enhance its procurement policies and guidelines to reflect best practices in public-private partnerships for the delivery of services to the public.

PROJECT BENEFITS

Recommendation

To help ensure that benefits identified in the business case for the Integrated Justice Project and any future projects are objectively and realistically presented, the Ministries should:

- *include in the business case specific details on cost savings and new revenues; and*
- *ensure that only well-researched and project-specific cost savings and new revenues are stated in the business case.*

CONTRACTUAL ARRANGEMENTS

Recommendation

To help ensure that future remuneration to vendors participating in Common Purpose Procurement projects is reasonable and fair, the Ministries should work with the Management Board of Cabinet to develop appropriate guidelines for the contract negotiation process. These guidelines should require that ministries examine ways of reducing the need for large incentives.

Recommendation

To ensure that vendor rates charged to the Integrated Justice Project are comparable to the rates available to other ministries of the Ontario government and comply with the contractual arrangements, the Ministries should renegotiate the vendor's rates.

In future Common Purpose Procurement projects, to help ensure that the rates being charged can be substantiated, adequate provisions for their verification should be included in any contractual arrangements.

Recommendation

To help ensure that the savings achieved in future Common Purpose Procurement projects are fairly distributed, the Ministries should ensure that rates set for their staff are comparable to rates used by vendors whenever possible. When rates are not comparable, the Ministries should document the justification for the rate differential.

The Ministries should also take corrective action to ensure that the future staffing costs they charge to the Integrated Justice Project are accurately calculated.

Current Status

The principles underlying our recommendations continue to be valid. With the Integrated Justice Project's termination, individual ministries were made responsible and accountable for any new development or system enhancements at their ministry and will be using existing policies for justification and approval of new information technology projects, including the further development of former Project components.

We understand that the above recommendations will be considered during Management Board Secretariat's review of the Common Purpose Procurement process to ensure that Common Purpose Procurement guidelines reflect best practices and that enhanced procedures will be identified. These procedures could be incorporated into the new guidelines for project managers who are considering using the Common Purpose Procurement approach in the future.

PROJECT ADMINISTRATION

Recommendation

To ensure that in future the Integrated Justice Project is administered with adequate internal controls and due regard for economy, the Ministries should:

- *ensure that charges to the investment pool are adequately verified with supporting documents in accordance with contract terms and approvals and take any additional measures considered necessary to eliminate duplicate charges and excessive payments;*
- *establish proper asset controls over its inventory of computer equipment; and*
- *ensure that consulting and related services can be demonstrated to have been acquired competitively and that payments are made in accordance with contractual terms and conditions.*

Current Status

While negotiations were underway, the Ministries undertook certain interim measures within the parameters of the existing arrangements to improve internal controls, such as better tracking of invoice payment and improving the validation process for invoice payment by the Project's Project Management Office.

Following the expiry of the Project's Work Term, the Ministries initiated a closing audit by an external firm of the investments and benefits to assess the appropriateness of charges to the Project and the existence of supporting documents for these claims. The audit had not yet been completed at the time of our follow-up.

Since the Project's termination, the Ministries have taken steps to further strengthen contract management with respect to information technology related contracts by centralizing control of these contracts within the Ministries' Justice Technology Services. A manager has been appointed to oversee the process to ensure compliance with government policies and procedures and with ministry-specific delegations of authority, as well as to ensure that payments are made in accordance with the contractual terms and conditions.

SYSTEM SECURITY

Recommendation

To help ensure that confidential data in the Integrated Justice Project systems are adequately protected against unauthorized access and data tampering, the Ministries should:

- *expedite their plans for implementing cryptography and other controls to secure data transmitted over the wide-area network; and*
- *implement more rigorous password controls over user accounts.*

Current Status

The Ministries informed us that they have implemented more rigorous password controls for the police Records Management System (RMS) and the corrections Offender Tracking Information System (OTIS) to protect data confidentiality and security.

Further security measures, such as cryptography, were scheduled for deployment for the police RMS in fall 2003.

In addition, independent Threat Risk Assessments (TRAs) have been completed for the police and corrections systems to determine vulnerabilities and any threats to the systems, and to identify mitigation strategies. Security at the data centre, which houses the police and corrections systems, was also assessed. The Ministry informed us that changes aimed at addressing the concerns raised by the TRAs either had been completed or were scheduled for implementation during the 2003/04 fiscal year.

MINISTRY OF COMMUNITY, FAMILY AND CHILDREN'S SERVICES

4.04–Support to Community Living Programs

(Follow-up to VFM Section 3.04, *2001 Annual Report*)

BACKGROUND

The Ministry's Support to Community Living programs provide funding for a wide range of community-based support services and prevention strategies for adults and children who are disadvantaged or living in poverty. The main objectives of these services are to assist such vulnerable individuals to live as independently as possible in their communities and to reduce the need for more intrusive and costly institutional care. For the 2002/03 fiscal year, ministry expenditures for these programs totalled $183.1 million. For the 2000/01 fiscal year, they totalled $155.6 million.

In 2001, we concluded that the Ministry's administrative policies and procedures were not adequate to ensure that transfer payments were reasonably linked to the quality and level of services provided and that the funds were prudently spent for the purposes intended. We also concluded that the Ministry did not monitor and assess the services provided by transfer-payment recipients to ensure that they were meeting its expectations. In particular, we found that:

- Ministry payments for both emergency and domiciliary hostel placements exceeded the agreed-upon per diem rates. For instance, over the past three years, the Ministry paid one municipality $16.5 million more than it was required to pay for emergency hostel stays.
- Funding for services paid for on a non-per diem basis was not based on a critical assessment of funding needs to ensure that the amounts provided were reasonable and commensurate with the level and quality of services provided.
- The Ministry had not implemented the governance and accountability framework it developed for all of its transfer-payment agencies in 1999. This framework is necessary to hold transfer-payment recipients accountable for the prudent use of ministry funds.

We made recommendations for improvements in a number of areas and received commitments from the Ministry that it would take the necessary corrective action.

CURRENT STATUS OF RECOMMENDATIONS

The Ministry's internal audit services reviewed the status of the Ministry's actions in response to our 2001 audit recommendations. We reviewed its work and determined that we could rely on it; we also received additional information from ministry program staff. We found from our review of the internal audit work and the other information received that the Ministry was in the process of taking action to implement our recommendations. The current status of ministry action taken on each of our recommendations is as follows.

PROGRAM ADMINISTRATION

Program Funding—Domiciliary Hostels and Emergency Hostels

Recommendation

To ensure that it is not overpaying for emergency and domiciliary hostel services and that payments are made in accordance with the cost-sharing agreement between it and consolidated municipal services managers, the Ministry should:

- *request information on actual hostel occupancies and on per diem rates and personal-needs allowances actually paid by consolidated municipal service managers to support monthly claims;*
- *verify that the monthly amounts claimed and paid do not exceed the maximum reimbursable amounts; and*
- *periodically verify the reliability of the information provided to detect ministry overpayments.*

Current Status

Ministry-wide policies and procedures requiring the verification of occupancy and per diem rate information to avoid monthly overpayments have not yet been developed. Nevertheless, one of the three regional offices visited in 2001, which accounts for approximately 70% of all emergency hostel expenditures, was proactive in addressing this recommendation, since the regional office now requests information on actual hostel occupancies, per diems, and personal-needs allowances paid in order to verify that the monthly amounts claimed do not exceed the maximum reimbursable amount.

In addition, to reinforce the requirement that claims do not exceed maximums, a ministry-wide compliance review and monitoring process is scheduled to begin in the fall of 2003.

FUNDING DUPLICATION FOR EMERGENCY HOSTEL RESIDENTS

Recommendation

To comply with the Ontario Works Act *by ensuring that individuals who reside in emergency hostels for extended periods of time are not also collecting Ontario Works benefits, which include a shelter allowance, the Ministry should:*

- *formally assess the extent and impact of such occurrences; and*
- *if warranted, require that consolidated municipal service managers identify such individuals and develop procedures for taking corrective action where required.*

Current Status

Although the Ministry has not conducted a formal assessment of the extent to which emergency hostel residents were also collecting Ontario Works benefits, a review of consolidated municipal service manager practices in the spring of 2002 identified the need for clarification in this area. In October 2002, the Ministry sent a bulletin to all consolidated municipal service managers, intended to clarify the issue of "funding duplication for emergency hostel residents."

In addition, we were advised that Service Delivery Model Technology system changes to support policy requirements are scheduled for implementation in late 2003.

Program Funding—Homelessness Initiatives

Recommendation

To ensure that funding for homelessness initiatives is spent prudently and in the most effective manner for meeting the needs of the homeless, the Ministry should ensure that:

- *funding is approved and provided on a timely basis and is consistent with the recipients' ability to provide the services agreed to; and*
- *ministry funding is used only for the purposes intended.*

Current Status

The Ministry stated that it continues to be committed to work within the government's funding approval process and to flow resources in a timely manner that reflects the ability of consolidated municipal service managers to provide services.

Program Funding—Interpreter/Intervenor and Children's Services

Recommendation

To help ensure that ministry funding is reasonable and commensurate with the underlying services to be provided and that value for money is being received for services rendered, before funding is provided the Ministry should:

- *require that agency budget submissions contain sufficiently detailed information on the services to be provided and the related costs to be incurred to enable informed funding decisions; and*
- *critically review and assess the reliability of that information.*

Current Status

In most cases, agency budget submissions still lack sufficiently detailed information on the services to be provided and the related costs to be incurred to enable the Ministry to make informed funding decisions. However, the Ministry has initiated training sessions with program supervisors to help clarify expectations and their responsibilities in this area.

We also understand that the Ministry is in the process of examining variances in costs for interpreter and intervenor services across the province. This may help to address the issue of funding inequities noted in our *2001 Annual Report.*

ANNUAL PROGRAM EXPENDITURE RECONCILIATION

Recommendation

To improve the effectiveness of the Ministry's Annual Program Expenditure Reconciliation (APER) process for identifying inappropriate or ineligible expenditures, returning excess program funding to the Ministry, and supporting future funding decisions, the Ministry should ensure that:

- *APERs contain sufficiently detailed and relevant information; and*
- *all surplus funds identified are returned to the Ministry on a timely basis as required by Management Board of Cabinet directive.*

Current Status

The Ministry's 2001/02 Annual Program Expenditure Reconciliation (APER) package provided to agencies included updated definitions of admissible and inadmissible expenditures.

However, the Ministry still does not ensure that the APERs and audited financial statements submitted by agencies include sufficiently detailed and relevant information to improve the effectiveness of the APER process. Therefore, the Ministry is still not in a position to effectively identify both inappropriate and ineligible expenditures. We were advised that staff training to improve the APER review and approval process began in the 2003/04 fiscal year.

With respect to excess funding, primarily surpluses self-identified by agencies were being returned to the Ministry within 24 months of each agency's year-end, in accordance with ministry policy.

ACCOUNTABILITY FRAMEWORK FOR AND GOVERNANCE OF TRANSFER-PAYMENT AGENCIES

Recommendation

To help ensure that services provided are of an acceptable and reasonably consistent standard and represent value for money spent, the Ministry should implement and communicate to its staff an accountability framework that satisfies the mandatory requirements of the Management Board Directive on Transfer Payment Accountability.

To enhance and justify the reliance the Ministry can place in the cost-effective governance of transfer-payment recipients, the Ministry should ensure that the conditions for such reliance have been communicated and are in place.

Current Status

The Ministry's *Governance and Accountability: Framework for Transfer Payments to Community Agencies* was approved in April 2003. This document will be accessible to community agencies through the Ministry's Web site, as well as linked to the Ministry's transfer-payment budget package for the 2004/05 fiscal year. This framework outlines the basic requirements and required activities for ministry staff and agencies. We were also advised that a resource manual for boards of directors was being developed and is expected to be distributed to transfer-payment agencies in early 2004.

Beginning in the 2001/02 fiscal year, the Ministry required agencies to affirm that their boards of directors have the expertise and experience necessary to discharge their responsibilities and that they also have an appropriate governance and reporting structure in place.

MINISTRY OF COMMUNITY, FAMILY AND CHILDREN'S SERVICES

4.05–Violence Against Women Program

(Follow-up to VFM Section 3.05, *2001 Annual Report*)

BACKGROUND

The Ministry's Violence Against Women (VAW) program funds transfer-payment agencies that provide safe shelter and other support services to women who have experienced violence or abuse as well as to their children.

For the 2002/03 fiscal year, ministry spending on this program totalled approximately $90.7 million, with ministry spending on this program being approximately $82 million for the 2000/01 fiscal year. For 2000/01, the Ministry provided approximately $64 million to nearly 100 community-based non-profit agencies that operated shelters providing temporary accommodations and security to approximately 15,000 women and 13,000 children during the year. The Ministry also provided approximately $18 million during that year to more than 100 other community-based non-profit agencies that did not operate a shelter but provided other support services such as counselling, violence prevention, and public education programs.

At the time of our 2001 audit, we concluded that the Ministry's monitoring and assessment practices did not ensure that the services provided by the transfer-payment agencies we reviewed were of an acceptable and consistent quality standard or that they represented value for money spent. We also concluded that the Ministry's policies and procedures were not adequate to ensure that transfer payments to agencies providing services were in all cases reasonable and sufficiently controlled. In particular, we found that:

- In some cases, women and children were turned away from shelters, and waiting times for other services were lengthy.
- The amount of funding provided to transfer-payment agencies was not based on an assessment of what costs would be reasonable for the services to be provided. As a result, the cost of similar services varied significantly among agencies.
- The Ministry's annual process for reconciling an agency's actual expenditures against funds provided was in many cases deficient in identifying inappropriate or ineligible expenditures as well as funding surpluses that should have been recovered.

We made recommendations for improvements in each of these areas and received commitments from the Ministry that it would take the necessary corrective action.

CURRENT STATUS OF RECOMMENDATIONS

The Ministry's internal audit services reviewed the status of the Ministry's actions in response to our 2001 audit recommendations. We reviewed their work and determined that we could rely on it. We found that the Ministry has made limited progress on implementing our recommendations. The current status of ministry action taken on each of our recommendations is as follows.

MONITORING OF SERVICES PROVIDED

Service Quality Standards

Recommendation

To ensure that services provided by all transfer-payment agencies under the Violence Against Women program are of an acceptable and reasonably consistent quality standard and that they represent value for money spent, the Ministry should:

- *establish and communicate its expectations for acceptable quality standards of service in each of the following areas: core services to be provided; minimum staffing levels and staff qualifications; admission criteria; acceptable waiting times; the physical security of shelters; and service co-ordination with other providers; and*
- *periodically assess whether the services provided by agencies are meeting ministry expectations and take appropriate corrective action if necessary.*

Current Status

In February 2002, the Ministry sent out a letter to all regional offices that included a statement of what a shelter's core services should be, admission criteria, and an overview of the serious occurrence reporting procedures. In addition and as a result of its hearings into our 2001 report, in December 2002 the Standing Committee on Public Accounts requested that the Ministry report on its progress with respect to defining core services and developing a policy to clarify the services not offered by shelters. In February 2003, the Ministry responded to this request by providing a listing of the major components of a shelter's service and other ancillary services that may be offered by a shelter.

The Ministry advised us that it is currently reviewing shelter staffing information and will assess the feasibility of developing a program guideline regarding staffing levels and core competencies.

The Ministry also developed and distributed the Children's Aid Society/VAW Shelter Collaboration Agreement Template and Guidelines to promote collaboration between the two sectors. The Ministry anticipates that agreements between them will be implemented across the province by spring 2004.

The issue of acceptable standards with respect to acceptable waiting times and physical security of shelters has not yet been specifically addressed. However, the Ministry advised us that it has allocated $5 million to enhance the safety, accessibility, and security of shelters.

Only at such time that acceptable quality standards of service have been established and communicated can compliance with them be assessed.

Quarterly Reporting

Recommendation

To ensure that the quarterly reporting process for the Violence Against Women program enables effective monitoring of expenditures and service delivery during the year, the Ministry should:

- *provide direction to all agencies to ensure that they report financial and service information on a consistent basis;*
- *ensure that agencies explain and describe appropriate plans of action for all significant variances, as required; and*
- *promptly evaluate and, where warranted, approve any corrective action proposed and ensure that it is undertaken.*

Current Status

In order to assist regional offices to more effectively monitor agency expenditures and service delivery, the Ministry revised and expanded the type of information to be reported by agencies. For instance, the Ministry introduced the Transfer Payment Business Cycle Checklist in September 2001. In February 2002, the Ministry sent a letter to regional offices reinforcing the use of this checklist.

However, the Ministry's internal audit services found that this checklist was either not being used by ministry staff, or when it was used, it was not fully completed. By not using the checklist or by not fully completing it and documenting the necessary analysis, the Ministry did not have the assurance that its business practices were being followed by the agencies being funded.

Serious Occurrences

Recommendation

To enhance the effectiveness of the serious-occurrence reporting-and-review process for agencies funded under the Violence Against Women program, the Ministry should ensure that:

- *agencies have a clear understanding of how the criteria for serious occurrences are to be applied;*
- *all verbal notifications of serious occurrences are logged so that it can reliably determine whether written follow-up reports are received as required; and*

- *appropriate corrective action is taken as a result of all serious occurrences that take place.*

Current Status

As of April 1, 2003, new forms for the reporting of serious occurrences were implemented. The forms included an area to document the name of the ministry employee who received initial notification of the serious occurrence and how the employee acknowledged the receipt of this information. The Ministry's internal audit services examined the serious-occurrence report process in three regional offices. It found that the forms were being used as intended and that these offices logged all serious occurrences to ensure that the reporting process was adhered to and timely follow-up occurred, if necessary.

TRANSFER-PAYMENT AGENCY ACCOUNTABILITY AND GOVERNANCE

Recommendation

The Ministry should improve the governance and accountability of Violence Against Women agencies by implementing the requirements of its Governance and Accountability Framework.

Current Status

Beginning in the 2001/02 fiscal year, the Ministry required agencies to affirm that their boards of directors had the expertise and experience necessary to discharge their responsibilities and that they also had an appropriate governance and reporting structure in place.

We were advised that, as of May 2003, the Ministry had finalized a governance and accountability framework for transfer-payment agencies, but it had yet to send the framework out to the agencies. We were also advised that a resource manual for boards of directors was being developed and was expected to be completed in fall 2003.

PROGRAM FUNDING

Funding for Shelter Services and Funding for Counselling and Other VAW Services

Recommendation

To help ensure that funding for services under the Violence Against Women program is commensurate with the specific needs of each agency, the Ministry should:

- *ensure that agency funding requests provide information that is sufficiently detailed and relevant to allow the Ministry to make informed funding decisions; and*

- *critically assess all requests for funding and ensure that amounts approved are commensurate with the demand for services and the actual services provided.*

Current Status

The Ministry's internal audit services examined a sample of ministry files and found that the funding requests still did not contain sufficiently detailed and relevant information to allow the Ministry to make informed funding decisions. Therefore, the Ministry has yet to address this recommendation effectively.

Annual Program Expenditure Reconciliations

Recommendation

To better ensure that the Annual Program Expenditure Reconciliation (APER) process for the Violence Against Women program identifies both inappropriate and ineligible expenditures, as well as surpluses, and better supports future funding decisions, the Ministry should:

- *clearly define eligible program expenditures and communicate that information to agencies;*
- *ensure that agencies provide financial information in their APERs that is sufficiently detailed and linkable to audited financial statements; and*
- *thoroughly review the information submitted in APERs and perform any necessary follow-up.*

Current Status

The Ministry acknowledges the need for strong financial accountability processes and has taken steps to improve the Annual Program Expenditure Reconciliation (APER) form and process. For example, the Ministry's 2001/02 APER package provided to agencies included updated definitions of admissible and inadmissible expenditures.

However, the Ministry still does not ensure that the APERs submitted by agencies include sufficiently detailed and relevant information to improve the effectiveness of the APER process. Therefore, the Ministry is still not in a position to identify both inappropriate and ineligible expenditures. With respect to excess funding, surpluses self-identified by agencies were being returned to the Ministry within 24 months of each agency's year-end, in accordance with Ministry policy.

MINISTRY OF EDUCATION

4.06–Special Education Grants to School Boards

(Follow-up to VFM Section 3.06, *2001 Annual Report*)

BACKGROUND

About 277,000 of the more than 2 million students attending Ontario's publicly funded schools receive special education programs and services. The strengths and needs of students with special education needs vary widely, from gifted at one extreme to those requiring very intensive support at the other.

For the school year ended August 31, 2002, the Ministry of Education provided $1.37 billion in special education funding to school boards (up from $1.36 billion in 2000/01). For the 2002/03 school year, it provided about $1.62 billion. These grants are intended to cover only the incremental costs of providing special needs assistance. The common basic costs of educating all students, including students with special education needs, are covered by other grants. Although the Ministry is ultimately accountable for the quality of Ontario's education system, it relies heavily on school boards as delivery agents to design and deliver quality programs and services to students.

In our 2001 audit, we examined the Ministry's administration and oversight of special education grants and services and visited selected school boards to review and discuss their special education expenditures and service-delivery practices. At that time, we concluded that neither the school boards we visited nor the Ministry, which was in the process of implementing a multi-year plan to strengthen accountability for special education grants and services, had the information and processes in place to determine whether special education services were being delivered effectively, efficiently, and in compliance with requirements. Our observations included the following:

- Individual Education Plans (IEPs) that we had reviewed did not meet either regulatory requirements or ministry expectations. IEPs are essential if each student is to receive the special education he or she requires.
- Neither the Ministry nor the boards had established quality assurance processes to ensure that suitable programs and services were being delivered to students with special education needs.
- School boards did not collect and report sufficient, appropriate information on their special education expenditures and service delivery to support decision-making by school-board management and to enable effective oversight by the Ministry, trustees, and parents.

- Many educators expressed concerns about insufficient numbers of teacher assistants and special education resource teachers to help them meet the needs of their students.

We had also reviewed the status of the 15 recommendations made in 1994 by the Standing Committee on Public Accounts as a result of our previous audit of special education programs and services. The Ministry had implemented four, was making progress on implementing six, and had not addressed five.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take corrective action.

CURRENT STATUS OF RECOMMENDATIONS

For several years the Ministry has been introducing major changes to Ontario's education system that are intended to improve its equity, quality, efficiency, and accountability. Many of these changes, such as the new curriculum, provincial report card, and provincial testing, are intended to benefit all students. The most significant changes aimed specifically at programs and services provided to students with special education needs began to be implemented in 1998. For example, standards for the preparation of Individual Education Plans and for the public reporting of school-board Special Education Plans were provided to school boards in 2000. As well, initiatives to set standards for the administration and delivery of special education programs and services were announced in January 2000 and were planned for completion by the end of 2002.

As of June 2003, although the Ministry has made progress, the completion of a number of major initiatives currently underway is needed before the Ministry and school boards will have assurance that special education funds are being spent in accordance with ministry expectations and students with special education needs are getting the programs and services they need.

We also reviewed the status of recommendations made by the Standing Committee on Public Accounts in 1994 and noted that significant progress in addressing the Committee's recommendations had been made since our 2001 audit.

The status of each of our 2001 recommendations is outlined below.

INDIVIDUAL EDUCATION PLANS

Compliance with Guidelines and Standards

Recommendation

To help ensure that the services students need to make satisfactory progress are timely and appropriate and that school boards comply with legislation, regulations, and policies, the Ministry should:

- *use the results of their planned compliance-verification work to provide boards with examples of successful practices for timely and effective preparation of Individual Education Plans; and*
- *require school boards to establish compliance-monitoring procedures and report the results of their work.*

Current Status

The Ministry has substantially implemented the first part of this recommendation. Since our audit the Ministry has completed compliance reviews of a sample of Individual Education Plans (IEPs) in each of the province's 72 school boards. Based on the results of the reviews conducted at the first 50 boards, the Ministry issued, in September 2002, further guidance to clarify certain requirements that were not being met by the boards and developed and distributed a template to assist boards to meet ministry expectations more effectively and consistently.

The second part of this recommendation remained to be implemented and is of continuing concern given the results of the Ministry's compliance reviews. The results of the 72 completed reviews were consistent with our findings in 2001. According to the letter that the Ministry sent to all school boards in June 2003, which summarized the 2003 review results for the remaining 22 boards, "the greatest concern continues to be that many IEPs do not effectively describe educational programming which is clearly connected to the Ontario curriculum." The Ministry also found, for example, that many IEPs lacked specificity in a number of areas, such as program goals, strategies, assessment methods, accommodations, and the specific knowledge and skills to be assessed each term; that most IEPs reviewed did not clearly demonstrate that parent/student consultation had actually occurred; and that inappropriate use of terms in most IEPs reviewed resulted in an inability to communicate the connections between a student's IEP and subsequent report card.

Although the Ministry already requires school boards to develop a plan and to publicly report on how they will comply with the Ministry's requirements for IEPs, the Ministry was planning to issue more specific policy directives to school boards regarding quality assurance mechanisms for IEPs in fall 2003.

Supporting Service Decisions

Recommendation

To help ensure that educators have the information they need to determine how to best meet the needs of students and to help parents assess the adequacy of services and supports, the Ministry should require boards to summarize the rationale for key service decisions in Individual Education Plans and provide explanations for cases in which planned progress has not been achieved.

Current Status

The Ministry was still in the process of implementing this recommendation. The Ministry requires that school boards include information that would support service decisions, such as assessment results, in Individual Education Plans (IEPs); however, according to the Ministry's compliance review results, these requirements were not being met by school boards. This recommendation will not be fully implemented until the Ministry determines that all boards have established effective quality assurance mechanisms for their IEPs in accordance with our first recommendation.

Reporting on Student Progress

Recommendation

To help ensure that all parents are provided with clear reports on their children's progress, the Ministry should provide boards with examples of good practice in reporting the progress of students working towards modified learning expectations.

Current Status

The Ministry was in the process of implementing this recommendation. The additional guidance provided to school boards in September 2002 clarified requirements for clearly articulating goals and modified learning expectations for students. However, practical examples of good practice had not been provided to boards, and Individual Education Plans (IEPs) reviewed in 2003 still did not meet ministry expectations in this regard. The Ministry communicated to Directors of Education in June 2003 that it intends to develop and distribute further resource supports through the revision of *Special Education: A Guide for Educators (Part E)* and through samples of completed IEPs. These supports are to be made available for use during the 2003/04 school year. While every IEP is individualized, samples of well-completed IEPs will support better completion of individual IEPs that will serve as an instrument to help measure a student's progress.

PROGRAM QUALITY STANDARDS AND ASSURANCE

Delivering the Individual Education Plan and Early Identification of Student Needs

Recommendation

To help ensure that students receive timely and effective programs and services in accordance with ministry program standards and expectations, the Ministry should:

- *require and assist boards to implement quality-assurance information systems and procedures for their special education and early intervention programs and services; and*

- *periodically assess whether the systems and procedures established by boards are working as intended.*

Current Status

The Ministry did not yet have any information on the extent to which school boards had taken action to collect better information on their special education programs and services and how well they were working. Any improvements may be evident in the Special Education Plans that school boards are required to prepare and make publicly available every other year, but updated plans were not due from the boards until July 31, 2003.

Since our audit, the Ministry has introduced an early reading and early math strategy to further support school boards to identify and assist, as soon as possible, students who are having difficulties in reading and math. The Ministry has also contracted with the Learning Disabilities Association of Ontario to develop and pilot a screening tool and targeted interventions for children in Kindergarten and Grade 1, to be used by teachers to identify and address reduced readiness to learn. Twenty school boards were involved in a pilot that concluded in June 2003. The project focused on reading and social readiness. A math readiness tool is to be developed in this fiscal year. The Ministry intends to review the results of the pilot and make any necessary amendments before releasing the screening tool and targeted interventions more widely. This project complements the Ministry's Early Math and Early Reading initiatives.

One of the major reforms the Ministry announced in January 2000 was the intention to develop program standards in order to achieve consistent quality in the special education programs and services delivered by school boards. The Ministry had planned to have standards for all 12 exceptionalities developed and released by 2003. In May 2003, the Ministry released proposed program standards that would apply to the planning and delivery of special education programs for all exceptional pupils.

In addition, the Ministry has initiated a pilot project involving 10 school boards (English and French, public and Catholic, representing all regions of the province) to field test the standards-based approach to the planning and delivery of special education, using the autism-specific standards as a vehicle for this test. The pilot project is intended to identify the key activities and changes that are needed to ensure quality improvement in program and service delivery and to support effective implementation of all program standards. Program standards will not be finalized and released until the pilot project has been completed and evaluated.

Tracking Student Achievement and Outcomes

Recommendation

To help ensure that the Ministry and school boards can evaluate the effectiveness of special education programs and services, the Ministry should:

- *require school boards to summarize the progress made by students with special needs relative to planned expectations and to report board-wide results on the extent to which expectations were met; and*
- *establish procedures to collect information on the post-school outcomes of students with special needs and report this information at both the school board and the provincial level.*

Current Status

Given the weaknesses in Individual Education Plans that the Ministry's compliance review process identified, little progress had been made on implementing this recommendation. The school boards that the Ministry reviewed were not capable of summarizing the progress being made by their students with special education needs either individually or collectively.

The Education Quality and Accountability Office (EQAO) has provided school boards with performance results on the 2002 Ontario Secondary School Literacy Test (both the February and October applications) for their students with special education needs. These data include exceptionality-specific results and data related to exemptions, deferrals, and type/frequency of accommodations. A provincial roll-up and presentation of these data were provided to the Minister's Advisory Council on Special Education following the release of the results to school boards and were used to help the Ministry's At Risk Working Group to form its recommendations. These recommendations address issues of achievement for students at risk of failure in school, including students with special education needs, and were being implemented at the time of our follow-up.

The EQAO has also expanded its guidance to educators who administer provincial assessments. This guidance may make these assessments more useful for tracking the progress of students with special education needs, provided that the results can be segregated into the proportion of students with special education needs in each school board and school who:

- are working towards the Ontario curriculum learning expectations for their grade and are identified as special needs only because they require certain accommodations;
- are working towards modified learning expectations in one or more subjects/courses; and
- are exempted from the assessments, including the proportion who are working towards alternative expectations to the Ontario curriculum.

According to the Ministry, a number of the Special Education Advisory Committees of district school boards have used the data from EQAO tests relating to students with special education needs as the basis for discussions about the students' performance.

As further support to our recommendation, in September 2002, the Minister's Advisory Council on Special Education recommended that the Ministry invest in applied special education research in order to develop the capacity of school boards for cost-effective programming and planning. The Council concluded that "efficient and effective use of resources cannot be achieved unless school boards have access to research that demonstrates how programming can be delivered for maximum impact."

By September 2003, the Ministry plans to have assigned a unique Ontario Education Number to each student that, together with other information systems projects underway, will help facilitate the collection of data on the progress and outcomes of all students, including those with special education needs, as well as the analysis of board-by-board achievement and change.

Provision of Professional Services

Recommendation

To help ensure that students with special needs have available to them, in accordance with the Education Act *and regulations, appropriate professional services regardless of the area of the province in which they reside, the Ministry should:*

- *require that boards collect and report complete service-backlog information; and*
- *resolve the co-ordination of services issue with the Ministry of Health and Long-Term Care.*

Current Status

The Ministry was in the process of implementing this recommendation. School boards are required to include service-backlog information in their Special Education Plans but, as stated earlier, these plans are not due until July 31, 2003. Therefore, the Ministry will not know the extent of service backlogs until those plans are received and analyzed.

The Ministry did provide school boards with $10 million of additional funding, to be spent by March 31, 2003, for reducing or eliminating any backlog in professional assessments their students required. The funding was to be used first to assess high-need students who may qualify for additional funding for support and other resources.

In March 2002, the Ministry established a Coordinated Services Advisory Committee that, in turn, has established several working groups to address specific services for children with special education needs, such as planning for entry to school, speech-language services, occupational therapy, physiotherapy, psychosocial services, and adaptive technology. Representation on the Committee includes individuals from other affected ministries, key health service areas, school boards, and parent groups. A recent focus has been on establishing performance indicators for a co-ordinated services approach that will permit the Ministry to monitor the impact of process improvements while giving school boards the flexibility to adapt approaches to local circumstances.

MANAGING PLACEMENT AND CLASS COMPOSITION

Recommendation

To help support resource allocation decisions and assist trustees and the Ministry to monitor the classroom support available to teachers and students, the Ministry should:

- *require that boards collect and report information on class composition and the support resources available for each school; and*
- *analyze the information to determine how pervasive support or composition problems are and take corrective action where necessary.*

Current Status

The Ministry only recently began to implement this recommendation. In January 2003, the Ministry launched the Special Education Data Project to address concerns about the reliability and usefulness of information being reported by school boards. The project is examining: the relevance of data currently collected to ministry decision-making and accountability for special education, the gaps and overlaps between data sources, and the comparability of data between the various school boards. One of the project's objectives is to improve the organization, quality, and comparability of the Ministry's information on special education students, staff, programs, and services. The Ministry expects to have recommendations by fall 2003 and to implement new or revised data requirements in time to start collecting information for the 2004/05 school year.

PLANNING AND OVERSIGHT OF PROGRAMS AND SERVICES

Recommendation

To help ensure that school-board special education programs and services are effective and to enable the Ministry to obtain assurance of that effectiveness, the Ministry should improve its standards for special education plans to include the requirements that:

- *trustees, with the advice of Special Education Advisory Committees, establish service-delivery objectives for management;*
- *management report annually on the extent to which service-delivery objectives have been achieved and on any necessary corrective action; and*
- *boards have systems and procedures to ensure the accuracy and completeness of the information presented in the plans and management reports.*

Current Status

The Ministry decided to delay action on this recommendation until it had reviewed the school-board Special Education Plans due in 2003. The Ministry's Standards for School

Boards' Special Education Plans were issued in September 2000 and became effective for the submission of boards' plans in 2001. The next set of board plans were not due to the Ministry until July 31, 2003. Once an analysis of the school boards' Special Education Plans is completed, the Ministry was planning to seek advice from the Minister's Advisory Council on Special Education regarding changes to the standards for future submissions.

TEACHER PREPAREDNESS

Recommendation

To help ensure that teachers are well prepared to meet the needs of students with special needs, the Ministry should:

- *work with applicable stakeholders to review the pre-service practical experience and special education course content requirements for certifying teachers and ensure that they reflect best practices in preparing teachers for their responsibilities; and*
- *investigate the feasibility of providing a cost-effective, Web-based reference facility for educators and of acquiring or developing age-appropriate instructional materials.*

Current Status

Significant progress has been made on this recommendation. The Ontario College of Teachers has completed regulatory revisions to the special education component of pre-service programs that are intended to ensure that all certified teachers have training in instructional strategies designed to meet the individual needs of students, including students with behaviour, communication, intellectual, physical, or multiple exceptionalities. Although the revised regulation has not yet been passed, some faculties of education have already introduced new pre-service experience requirements for special education into their teacher training programs. The new qualifying test for teachers also includes content on teaching students with special education needs.

In addition, on December 12, 2002, the Ontario College of Teachers was granted regulatory authority to accredit teacher education programs. Accreditation is intended to ensure more consistent quality and adherence to professional standards by institutions offering such programs.

The College has also completed major revisions to the additional qualification courses teachers must take as part of their new five-year mandatory professional learning program beginning in 2003, and special education courses are being significantly expanded as part of this initiative.

Also in 2003, the Ministry released an updated CD-ROM version of the Curriculum Unit Planner for teachers that includes a Special Education Companion. The Companion includes sample teaching strategies, suggestions, and accommodations for most exceptionalities, together with Internet links to Web-based information and resources.

FUNDING FOR SPECIAL EDUCATION

Recommendation

To strengthen the ability of trustees, Special Education Advisory Committees, parents, and the Ministry to hold school-board administrators accountable for spending special education funds in a cost-effective manner and to strengthen the Ministry's ability to ensure the adequacy and equity of the special education funding formula, the Ministry should:

- *require that boards report the full cost of special education by major activities and functions and establish standards to ensure that the reported information is comparable across boards;*
- *obtain assurance regarding the reliability of the reports; and*
- *analyze the reported information, determine the reasons for any significant inconsistencies in expenditures, and take action where appropriate.*

Current Status

The Ministry was in the process of implementing this recommendation. The Ministry concluded its process for validating the number of high-needs students requiring intensive supports in each school board, and final funding adjustments had been made.

As part of the Special Education Data Project already noted, the Ministry worked with school boards to resolve issues relating to the reliability and comparability of expenditure data. In April 2003, it issued new special education expenditure reporting instructions to school boards that clarify special education expenditure information requirements and definitions. The new requirements apply beginning with the 2003/04 school year. Consequently, the Ministry will not have more reliable and comparable information on school boards' special education expenditures until fall 2004. Efforts to obtain program and activity level expenditure data will take even longer as many school boards do not have the necessary systems in place to provide such data.

MINISTRY OF FINANCE

4.07–Community Reinvestment Fund

(Follow-up to VFM Section 3.07, *2001 Annual Report*)

BACKGROUND

Effective January 1, 1998, in an initiative that became known as Local Services Realignment (LSR), responsibilities relating to 16 government programs and some $3 billion in program costs were realigned between the province and Ontario's municipalities. The programs included Municipal Transit, Public Housing, Social Assistance, Public Health, Policing, and Land Ambulance services. To help municipalities pay for the programs transferred to them, the province took over funding of approximately $2.5 billion in education costs that previously had been funded by municipalities from local property taxes. As the municipalities were allowed to retain all local property taxes collected, this created what is referred to as "tax room" for municipalities.

The Community Reinvestment Fund (CRF) was established in 1998 with the objective of ensuring that the LSR initiative was and remains revenue neutral to municipalities by annually providing payments making up the difference between net LSR costs transferred and municipal tax room. Since 1998, CRF payments to eligible municipalities have totalled approximately $3.1 billion, with $623 million being paid in the 2002/03 fiscal year. In the 2000/01 fiscal year, $561 million, which included the CRF Bonus and Supplementary Assistance, was paid.

In our *2001 Annual Report*, we concluded that the Ministry did not have adequate procedures to measure and report on whether the CRF was meeting its revenue neutrality objective. In addition, we found that the CRF did not ensure the ongoing revenue neutrality of the LSR initiative, either as a whole or for individual municipalities, and that this problem had been growing over time. The divergence from revenue neutrality was in both directions, with some municipalities clearly gaining from the LSR and others losing. We concluded that the CRF as structured at the time of our audit was working against the objective of ensuring revenue neutality. Specifically:

- Eligible LSR costs for fully transferred programs were frozen at the amounts existing at the time of program transfer. Accordingly, actual costs incurred by municipalities in subsequently delivering these programs were not being taken into account in determining CRF entitlements.
- The CRF allocation formula takes into account only those LSR costs that remained after the deduction of approximately $500 million annually to reflect a provincially imposed savings target. That target is a percentage of total municipal spending that varies according to the size of a municipality, and the Ministry had insufficient empirical or

analytical support for this approach. Furthermore, since $1.3 billion in LSR programs were still administered by the province, the savings target presented municipalities with the challenge of finding savings in programs that they did not control.

- Because of the intricacies of the CRF funding formula, savings targets had had no effect on some 72 municipalities that experienced annual windfall gains from the LSR initiative. Other municipalities experienced a significant, negative fiscal impact.
- The Ministry did not update the residential education tax-room component of the CRF payment formula to reflect recent changes in assessment data, including changes arising from the latest province-wide current value assessment. Updating the tax-room component of the CRF funding formula would have increased the CRF entitlement of some municipalities and decreased the entitlement of others.

With respect to program administration, while we concluded that overall system controls and procedures were adequate to ensure that CRF payments were properly authorized and processed, we recommended that the Ministry improve its monitoring of municipal use of CRF funds, implement procedures to recover or minimize CRF overpayments, and improve the timeliness of providing CRF information to municipalities.

The Ministry responded to our recommendations with commitments to either take corrective action or to consider our recommendations in its current review of the CRF program.

CURRENT STATUS OF RECOMMENDATIONS

The Ministry of Finance advised us that it has considered all of our recommendations from the *2001 Annual Report*. The Ministry's response to our recommendations has resulted in administrative improvements to certain components of the program, as well as a commitment to an annual update of the active program data that determine funding eligibility. The Ministry also advised us that it had responded to some recommendations by seeking and obtaining confirmation from the government of its policy framework for the CRF. The current status of each of our recommendations is outlined below.

REVENUE NEUTRALITY

Recommendation

To ensure that future municipal financial support continues to meet the government's overall municipal support objectives, the Ministry should work with the Ministry of Municipal Affairs and Housing and incorporate in its approach an assessment of:

- *changes in local service delivery needs; and*
- *current municipal taxing capacity.*

If, as a result of the Community Reinvestment Fund (CRF) review, the Ministry decides to continue with the CRF approach to municipal funding, it should develop performance indicators to measure its achievement of revenue neutrality on an ongoing basis. To be able to assess the achievement of the objective of revenue neutrality and issues of divergent impacts of the CRF formula, the Ministry should ensure that its review considers:

- *the extent to which the CRF reflects actual Local Services Realignment costs incurred;*
- *the reconciliation of forecasted costs to actual costs at each year-end and subsequent payment adjustments;*
- *the distribution of any required savings efficiencies across the province based on analysis and empirical information; and*
- *the implications of up-to-date current value assessment data in its determination of municipal tax room.*

Current Status

In 2001, prior to the release of our report, the Ministry completed a review of the CRF program. As part of the review, it consulted with municipalities to determine whether to continue with the existing CRF funding model or to adopt an alternative model. Based on the input received, the government decided to maintain the CRF with some administrative improvements.

We understand that the continuation of the CRF approach to municipal funding has been reaffirmed by the government. Notwithstanding our previous concerns, the Ministry maintains its position that revenue neutrality has been achieved through the operation of the formula guiding the CRF Base calculation—namely, that municipalities whose LSR costs exceed the residential tax revenues granted to them in 1998 are eligible for a CRF Base Grant. The funding allocations arrived at through this CRF Base calculation reflect government policy and represent, by the Ministry's definition, the performance indicator of revenue neutrality.

With respect to our concern that the costs for fully transferred programs (that is, programs that are no longer administered by the province and are not cost shared) were frozen at the level existing at the point in time the program transferred, the Ministry indicated that this continued to be the case for the majority of fully transferred programs, including: Children's Aid Societies; Public Housing; Airports; Septic Inspections; Gross Tax Receipts; and Property Assessment. However, the Ministry informed us that the fully transferred Farm Tax Rebate and Managed Forests/Conservation Land Rebate programs have now been reclassified as "active" programs. Accordingly, LSR costs associated with these programs will continue to be updated annually. Furthermore, since our audit, the province has taken back full responsibility for both the operating and capital costs related to GO Transit. In addition, it has assumed one-third of the capital funding costs related to Municipal Transit (operating costs, however, continue to be frozen).

With respect to our concern that the current value assessments (CVAs) on which municipalities based their property taxes, and hence on which the "tax-room" allocations used by municipalities to help fund LSR costs were based, had not been updated by the most recent CVA changes, the government has decided that it will not update the tax-room allocations to reflect the most recent CVA changes. However, the Ministry has advised us that LSR costs for the Farm Tax Rebate and Managed Forests/Conservation Land Rebate programs will continue to be updated to reflect the most recent CVA data.

A third concern in our *2001 Annual Report* was that the government required municipalities to achieve varying amounts of savings (depending on municipality size) as part of its calculation of CRF entitlements—without ensuring that the savings targets were supported by empirical or analytical evidence. The Ministry advised us that the government has reviewed and confirmed that the original CRF formula, which incorporates municipal savings targets, will continue to be used to determine municipalities' CRF Base allocations. Accordingly, the required municipal savings targets have remained unchanged since 1998.

CRF BONUS AND SUPPLEMENTARY ASSISTANCE

Recommendation

The Ministry should conduct regular reviews of the bonus and supplementary-assistance components of the Community Reinvestment Fund to ensure that they are achieving the government's objectives.

Current Status

The 2002 Community Reinvestment Fund (CRF) payments included the CRF bonus and supplementary-assistance components. In addition, the government paid a Transit Bonus to offset any reduction in CRF entitlements resulting from lower municipal transit capital and GO Transit costs when the province took back responsibility for the Municipal Transit and GO Transit programs. The Ministry advised us that the government has reviewed and approved the continuation of these components of the CRF and accordingly, funding allocations reflect that policy approval.

PROGRAM ADMINISTRATION

Monitoring of Municipalities

Recommendation

If the Community Reinvestment Fund (CRF) continues in its current form, the Ministry should determine whether municipalities are adhering to program requirements by:

- *reviewing municipal cash and working capital balances to ensure CRF funds are being used as intended by the government;*

- *following up with all municipalities that reported tax increases between 1999 and 2000 to determine why the increases were necessary; and*
- *assessing whether municipalities with windfall gains have passed these benefits on to taxpayers.*

To ensure that municipal fiscal planning is not negatively impacted, the Ministry should also work with municipalities and the Ministry of Municipal Affairs and Housing to determine if and when it would be appropriate to allow the allocation of CRF funds to municipal reserve accounts.

Current Status

Subsequent to our 2001 audit, the government rescinded its policy of barring municipalities from allocating CRF funds to local reserve accounts. The current policy is that the decision whether or not to use CRF funds immediately is a local one. The Ministry has also streamlined its reporting requirements for municipalities in 2002 and 2003 by eliminating areas where information requests were previously duplicated.

The Ministry has also taken the position that monitoring the use of CRF funds by municipalities infringes on municipal autonomy and may restrict budgetary decisions. Given that municipalities are primarily accountable to local taxpayers, the Ministry's view is that this accountability relationship is in itself a monitoring tool. As a result, the Ministry was not planning to follow up with municipalities to determine whether tax increases reported by municipalities were in accordance with CRF program requirements and whether municipalities that experience annual windfall gains as a result of Local Services Realignment (LSR) have used these gains for the benefit of local taxpayers.

Overpayments

Recommendation

To ensure that the Community Reinvestment Fund (CRF) payments are appropriately made with due regard for economy, the Ministry, in its review, should consider the recovery of CRF overpayments or develop a strategy to minimize their occurrences.

Current Status

Following our 2001 audit, the government originally planned to adjust the 2003 CRF entitlements of those municipalities that received an overpayment in 2001. This process would have allowed municipalities with CRF reductions sufficient time to budget for their funding decrease. Municipalities were notified of this through a letter signed jointly by the Deputy Minister of Finance and the Deputy Minister of Municipal Affairs and Housing in November of 2001.

However, the government made a subsequent policy decision to keep the 2003 CRF payments at the same level as the 2002 payments. Accordingly, there has been no recovery of previous years' overpayments.

Municipal Information Requirements

Recommendation

To improve municipalities' ability to accurately project provincial funding when they set municipal tax rates and to facilitate the accurate reporting of such funding in municipal year-end financial statements, the Ministry should work to improve the timeliness of the information it provides to municipalities regarding Community Reinvestment Fund entitlements.

Current Status

The Ministry has committed to informing municipalities of the amount of their Community Reinvestment Fund (CRF) entitlements before the beginning of each municipal fiscal year. Accordingly, CRF allocations are now to be announced each October. In the fall of 2001, municipalities were advised of their 2002 CRF allocation. Similarly, the 2003 allocations were announced in the fall of 2002.

The Ministry advised us that it has also improved the transparency of CRF data. Previously, the year-end reconciliation data for some programs were based on interim estimates of program costs. The administrative improvements introduced in 2001 now ensure that CRF payments are reconciled to actual, final LSR program costs for active programs for all municipalities.

MINISTRY OF FINANCE

4.08–Gasoline, Fuel, and Tobacco Taxes

(Follow-up to VFM Section 3.08, *2001 Annual Report*)

BACKGROUND

For the 2002/03 fiscal year, the Ministry collected commodity taxes on gasoline, fuel, and tobacco that totalled $4.2 billion. For the 2000/01 fiscal year, the amount of taxes collected totalled $3.25 billion, which represented approximately 6.7% of the province's total taxation revenue from all sources.

We concluded in 2001 that the Ministry's policies, procedures, and technology systems did not provide the information necessary to ensure that all gasoline, fuel, and tobacco taxes due were being declared and paid in accordance with statutory requirements.

With respect to the collection of gasoline and fuel taxes, we found that the Ministry did not:

- obtain information on the amounts of gasoline and diesel fuel produced in Ontario and reconcile those amounts to reported sales to ensure that tax was being paid on all gasoline and fuel production except for legitimate tax-exempt sales;
- regularly compare the billions of dollars of reported tax-exempt sales and purchases between collectors to ensure that large discrepancies were adequately resolved or assessed for tax; and
- verify the completeness and accuracy of reported imports and exports by comparing them to independent information provided by inter-jurisdictional transporters, including pipelines.

With respect to the collection of tobacco taxes, we found that:

- information on the quantity of cigarettes produced in Ontario was not obtained and compared to the quantity of reported sales to ensure that tax was being paid on all cigarette production except for legitimate tax-exempt sales;
- a more effective system for marking tax-paid cigarettes needed to be implemented;
- the completeness and accuracy of reported tobacco imports and exports was not verified with independent information such as that provided by inter-jurisdictional transporters of tobacco products;
- there was no assurance that the tax on tobacco imports by unregistered importers was being declared and paid; and
- the Ministry needed to consider the need for developing an allocation system for the sale of tax-exempt cigars on native reserves similar to the one in place for cigarettes.

At the time of our audit, we had made recommendations for improvements in each of these areas and received commitments from the Ministry that it would take the necessary corrective action.

CURRENT STATUS OF RECOMMENDATIONS

In June 2003, the Ministry advised us of the current status of the actions taken to address each of our recommendations. We are pleased to note that in many areas, substantial progress appears to have been made in implementing the necessary corrective action, as detailed in the following.

GASOLINE AND DIESEL FUEL TAXES

Gasoline and Diesel Fuel Production

Recommendation

To help ensure that all gasoline and diesel fuel produced in Ontario is accounted for as either taxable or tax-exempt sales, the Ministry should require refiners to submit information on gasoline and diesel fuel produced, compare it to reported taxable and tax-exempt sales, and periodically verify the accuracy of the production information received.

Current Status

The Ministry revisited the legal implications of this recommendation and determined that legislative authority was necessary to require refiners to submit information on production. As a result, new registration requirements for manufacturers are now in place in Section 2.1 of the *Fuel Tax Act* and Section 2.1 of the *Gasoline Tax Act* and were effective as of July 1, 2003. A bulletin outlining the registration requirements was published in February 2003. Another bulletin outlining the specific reporting requirements will be issued upon the filing of regulations establishing the reporting details.

It is estimated that implementation of the reporting requirements will take approximately 12 months from when the requirements are established if a manual system for registration and reporting is established, or 24 months if a more effective electronic system is developed. Funding for and availability of information technology resources may impact on these estimated delivery time frames.

Gasoline and Diesel Fuel Tax Return Processing—Tax-exempt Sales and Purchases Between Collectors

Recommendation

To help ensure that the correct amounts of gasoline and diesel fuel taxes are declared and paid, the Ministry should:

- *verify the accuracy of reported tax-exempt sales and purchases between collectors and ensure that large discrepancies are identified, followed up, and assessed where warranted; and*
- *clearly communicate what constitutes a sale.*

Current Status

The Ministry has identified stronger accountability and reporting mechanisms and discussed them with industry stakeholders. These discussions revealed practical problems with respect to reporting sales information, including the need for an identifier on "swap" contracts (wherein collectors trade petroleum products on an in-kind basis) so that the information in the contracts can appear on invoices.

The Ministry has prepared a draft bulletin that addresses concerns raised by industry stakeholders in the course of the discussions noted above. The Ministry is expected to issue the bulletin before the end of 2003, pending further industry consultations and resolution of technical challenges to the implementation of reporting requirements.

Gasoline and Diesel Fuel Tax Return Processing—Gasoline and Diesel Fuel Imports and Exports

Recommendation

To help ensure that all imports and exports of gasoline and diesel fuel are accounted for and that the correct amount of tax is declared and paid, the Ministry should:

- *ensure that all gasoline and diesel fuel tax collectors and inter-jurisdictional transporters, including pipelines, submit the information required of them by law;*
- *verify the accuracy of reported imports and exports by comparing them to information provided by inter-jurisdictional transporters—when significant variances are identified, they should be investigated and resolved on a timely basis;*
- *provide the Canada Customs and Revenue Agency with an up-to-date list of registered importers to ensure that unregistered importers pay the applicable tax at the time of import; and*
- *develop the appropriate tax return forms for inter-jurisdictional pipeline transporters.*

Current Status

The Ministry informed us that reporting requirements for collectors and inter-jurisdictional transporters, including pipelines, with respect to imports and exports have been brought to the attention of non-compliant registrants. A bulletin outlining requirements for transporters, including pipelines, was published in April 2003. In addition, Bill 198 established more effective sanctions for failure to file sales and transporter returns.

To facilitate the verification of reported information, the Ministry was considering, at the time of our follow-up, electronic service-delivery options under the electronic reporting initiative of the Canadian Fuel Tax Project (a project mandated to simplify and standardize the administration of fuel taxes across all Canadian jurisdictions).

An updated border collection agreement for petroleum tax collection that includes a provision for regular information exchanges between the Canada Customs and Revenue Agency (CCRA) and the Ministry has been reviewed by the Ministry's Legal Services Branch. Finalization of the agreement with the CCRA is expected by the end of the 2003/04 fiscal year. The agreement should ensure that the CCRA has up-to-date information on registered importers to enable the collection of taxes from unregistered importers.

Tax return forms and schedules for inter-jurisdictional pipeline transporters have been finalized and are currently in use.

Gasoline Tax Refunds

Recommendation

To ensure that only eligible gasoline sales are exempted from tax, the Ministry should review refund vouchers submitted by collectors for completeness and reasonableness of exemptions claimed based on assessed risks and follow up on questionable or incomplete vouchers to determine whether or not the purchases qualify as tax-exempt.

Current Status

The Ministry informed us that the review of the refund claims in collector returns using risk-based sampling techniques had been suspended during our audit in 2001 while resources were redirected to other activities. The Ministry advised us that this review was resumed in June 2001 and that refund claims continue to be monitored. As a result, eight warning notices had been issued to non-compliant retailers; those retailers are now required to file their returns and supporting vouchers directly with the Ministry.

The Ministry also informed us that the vouchers submitted by retailers that previously submitted questionable claims are now closely scrutinized prior to authorizing any refund.

Fuel Acquisition Permits

Recommendation

To ensure that tax-exempt diesel fuel purchased by holders of Fuel Acquisition Permits is used only for eligible purposes, the Ministry should:

- *monitor and assess the reasonableness of the tax-exempt diesel fuel purchases reported by Fuel Acquisition Permit holders; and*

- *conduct periodic audits or inspections of all types of permit holder facilities, based on the assessed risks.*

Current Status

The Ministry informed us that it now annually reviews renewals of Fuel Acquisition Permits used to buy tax-exempt diesel fuel for kerosene repackaging, and field inspections of permit holder facilities are conducted where actual business practices could not be confirmed as appropriate.

The Ministry also informed us that it reviewed, prior to the 2002 renewal cycle, all of the 163 accounts of permit holders buying the tax-exempt fuel for tobacco curing. Only 86 permits were renewed. Inspectors visited approximately 30 of the 86 tobacco curers granted renewals and found that the curing process had changed such that the curing process no longer required clear diesel fuel. The Ministry has since cancelled all remaining permits for tobacco curers.

The Ministry is also participating in the exempt sales sub-project of the Canadian Fuel Tax Project to determine alternative methods of administering tax-exempt sales.

TOBACCO TAXES

Tobacco Tax Return Processing—Cigarette Production and Control

Recommendation

The Ministry should ensure that all cigarette manufacturers:

- *submit the required schedules indicating the number of Ontario-marked cigarettes produced, shipped, and on hand; and*
- *provide information about the amount of yellow tear-tape acquired and used.*

The Ministry should then use that information to assess the reasonableness of reported taxable sales.

Current Status

The Ministry informed us that all registered manufacturers were notified of the mandatory requirement to file the appropriate inventory distribution and sales schedules with their monthly returns and are now doing so on a regular basis. Upon receipt of the returns, Ministry staff routinely reconcile the two schedules and follow up on any discrepancies.

Amendments to the *Tobacco Tax Act* require tear-tape manufacturers to account for the manufacture and sale of tear-tape and to limit sales to registered manufacturers. The amendments also require that cigarette manufacturers purchase tear-tape only from manufacturers that have been issued a manufacturing permit by the Ministry and that every permit holder "account for and take reasonable steps to safeguard tear-tape in its possession." However, at the time of our follow-up, the amendments had not yet been proclaimed and were therefore not in force.

Tobacco Tax Return Processing—Tobacco Imports and Exports

Recommendation

To ensure that tobacco product import and export reports are complete and accurate and that the correct amount of tax has been declared and paid, the Ministry should:

- *obtain the required information from all inter-jurisdictional transporters or, if that information is unavailable, obtain other evidence, such as customs declarations, to assess the completeness and accuracy of reported imports and exports; and*
- *regularly obtain information from the Canada Customs and Revenue Agency detailing tobacco-product imports by unregistered importers and use it to determine whether the correct amounts of tobacco tax have been declared and paid.*

Current Status

Transporters carrying tobacco are now required to register with the Ministry and report the names of the exporters and importers for which they are carrying tobacco. Failure to do so is being treated as a non-compliance issue, and the Ministry informed us that it has contacted specific transporters to address deficiencies. The Ministry was expecting that, by September 2003, it would be reviewing monthly returns submitted by transporters and, where necessary, taking appropriate follow-up action. In that regard, a regulation detailing the requirements for inter-jurisdictional tobacco transporter returns had been drafted and reviewed, and approval was pending. Also, a bulletin outlining inter-jurisdictional tobacco transporter requirements had been drafted and approved.

An updated report on tobacco product imports was received from the CCRA in late 2002, after a protracted delay due to legal and policy issues. The report has been analyzed and integrated into the Ministry's audit plan for the 2003/04 fiscal year. In addition, after the border collection agreement for petroleum tax collection (see "Current Status" of "Gasoline and Diesel Fuel Tax Return Processing—Gasoline and Diesel Fuel Imports and Exports") is finalized, the Ministry is to commence negotiations with the CCRA to enhance the border collection agreement for tobacco tax collection.

Cigar Taxes

Recommendation

To ensure that the quantity of tax-exempt cigars sold on native reserves is reasonable, the Ministry should consider the need for an allocation system for cigars similar to the one in place for the sale of tax-exempt cigarettes, and if considered advisable, initiate its development.

Current Status

The Ministry informed us that it has completed a study of the advisability of an allocation system for cigars; the study was being reviewed at the time of our follow-up.

SECURITY REQUIREMENTS

Recommendation

To help protect its financial interests, the Ministry should:

- *consider whether its best interest would be served by requiring security from all registrants; and*
- *ensure that all registrants required to post security do so in the stipulated amount.*

Current Status

The Ministry informed us that it was reviewing the grandfathering concession whereby registrants in operation before 1992 were exempted from security requirements. The review was expected to be completed this year. In this regard, we noted that three collectors lost their exempted status due to amalgamations and were requested to post financial security.

The Ministry also informed us that it is to annually review the required amount of security for all collector accounts through desk audits. In addition, linking accounts in the Ministry's Motor Fuels and Tobacco Tax Branch to the Ministry's core tax systems, such as ITAS (Integrated Tax Administration System) and BASYS (the Ministry's commodity sales tax system), should help the Ministry identify changes in the pertinent entities (manufacturers, collectors, and importers) on a timely basis.

GASOLINE, DIESEL FUEL, AND TOBACCO TAX AUDITS

Recommendation

To ensure that audit work is completed satisfactorily and clearly determines whether or not the correct amount of gasoline, diesel fuel, and tobacco tax has been declared and paid, the Ministry should:

- *develop detailed audit programs that comply with the work requirements of the Ministry's own Audit Procedures Manual for inclusion in each audit file;*

- *encourage supervisory input at the planning stage to ensure high-risk areas are appropriately addressed;*
- *ensure that the required work is completed satisfactorily and that any unresolved variances are assessed when warranted to prevent the results of further audit work from becoming statute barred; and*
- *complete audits on a three- to four-year cycle to ensure that returns do not become statute barred.*

Current Status

The Ministry informed us that revised audit programs are in place and being tested in the field. According to the Ministry, these programs provide greater detail as regards work requirements and facilitate supervisory input and review of completed work.

Field and desk audit plans are being co-ordinated to ensure audits are completed prior to statute barring of potentially material tax liabilities.

FIELD INSPECTIONS

Recommendation

To maximize the benefits of its inspection program for encouraging compliance with gasoline, diesel fuel, and tobacco tax requirements, the Ministry should:

- *assess whether the number of inspectors is sufficient to promote voluntary compliance on a broad scale;*
- *base its performance targets for the type, number, and location of inspections to be undertaken on the periodic assessment of known risks of tax evasion schemes; and*
- *monitor the results of inspections by type, number, and location, and periodically make any changes needed to ensure that its resources remain effectively deployed.*

Current Status

The Ministry has recognized that more inspectors are needed to provide an appropriate level of province-wide coverage. An increase in inspection resources has been proposed, but the Ministry advised us that the need for additional inspections must compete for limited resources with the needs of other ministry enforcement and audit functions.

A computer-based planning and management information system is being investigated for use in the Motor Fuel and Tobacco Tax Branch's field inspection unit. A results-reporting feature will be included for better monitoring of performance. In the meantime, manual forms are being used for performance monitoring, with spreadsheet software being used to control and analyze results reporting.

BUSINESS PROCESS RE-ENGINEERING

Recommendation

Given that many of our preceding recommendations could be implemented most efficiently and effectively through the use of information technology, the Ministry should give priority to completing its business re-engineering project as soon as possible.

Current Status

The Ministry advised us that the business re-engineering project was implemented in November 2002. Additional functionalities are being added to accommodate budget and legislative changes and new business requirements.

EFFECTIVENESS MEASURES

Recommendation

To determine the extent to which it is meeting its objectives of encouraging voluntary compliance with and deterring the evasion of gasoline, diesel fuel, and tobacco taxes, the Ministry should develop and implement the necessary performance indicators.

Current Status

The Ministry informed us that performance indicators resulting from audits are being statistically summarized and analyzed for assessment amounts and trends. At the time of our follow-up, a similar system for inspections was being developed.

MINISTRY OF HEALTH AND LONG-TERM CARE

4.09–Drug Programs Activity

(Follow-up to VFM Section 3.09, *2001 Annual Report*)

BACKGROUND

The Drug Programs Branch of the Ministry of Health and Long-Term Care is responsible for co-ordinating the provision of prescription drugs and related products to eligible Ontarians. To this end, the Ministry administers transfer payments provided by the Ontario Drug Programs Activity for the Ontario Drug Benefit Program, the Trillium Drug Program, and the Special Drugs Program. Legislative authority for the Ontario drug programs transfer payments are established under the *Ontario Drug Benefit Act*, the *Drug Interchangeability and Dispensing Fee Act*, and the *Health Insurance Act*.

For the 2002/03 fiscal year, the programs' expenditures were $2.6 billion, of which $505 million was recovered from the Ministry of Community, Family and Children's Services for drug benefits paid for social-assistance recipients. For the 2000/01 fiscal year, the programs had total expenditures of $1.98 billion, of which $413 million was recovered from the then Ministry of Community and Social Services for drug benefits paid for social-assistance recipients.

At the time of our 2001 audit, although we noted that the Ministry had introduced a number of initiatives to manage drug expenditures, we found that the Ministry had not given sufficient consideration to the prices it was paying for drugs. Specifically, we found that:

- Delays in adding approved generic drugs to the Ontario Drug Benefit Formulary and in implementing manufacturers' price reductions resulted in lost savings totalling $17 million over a two-year period.
- The Ministry had not reviewed the effectiveness of the generic pricing practices or routinely compared the prices it was paying for drugs with the prices paid by other jurisdictions. In this regard:
  - For a sample of generic products we tested, the Ministry would have saved approximately $54 million annually had it paid the same prices as Saskatchewan for these products.
  - Another jurisdiction, using a competitive acquisition process, was able to obtain prices for certain drugs that were, on average, 60% lower than those obtained by Ontario. Annual potential savings to the Ministry could have been as much as $140 million if it had been able to obtain the same prices for these drugs.

The Ministry generally had adequate procedures in place to ensure compliance with legislation and that claims were properly approved, processed, and paid. However, we noted that:

- The Ministry had not substantiated whether as many as 180,000 of the recipients who were granted temporary eligibility for the Ontario Drug Benefit Program in 1999/2000 were in fact entitled to benefits.
- The Ministry forgave $1.5 million to be recovered from pharmacies resulting from a 1997 verification of claims for limited-use drugs.
- The Ministry needed to improve the procedures for paying Special Drugs Program invoices—we found that, for one drug we selected for audit, the Ministry had been overcharged $475,000 over a five-year period (the Ministry was in the process of recovering the overpayment from the manufacturer).

We made a number of recommendations for improvement and received commitments from the Ministry that it would take corrective action.

CURRENT STATUS OF RECOMMENDATIONS

According to information obtained from the Ministry of Health and Long-Term Care, the Ministry has taken some action on most of the recommendations we made in our *2001 Annual Report*. The current status of our recommendations is as follows.

ONTARIO DRUG BENEFIT AND TRILLIUM DRUG PROGRAMS

Drug Use Review

Recommendation

To help ensure that Ontario's drug programs encourage the economic and appropriate use of prescription drugs and result in optimal improvement in the health status of recipients, the Ministry, in consultation with other stakeholders, should:

- *establish a drug use review program; and*
- *ensure that the Health Network System provides accurate and complete information to implement drug use review.*

Current Status

The Ministry advised us that:

- The Ministry "has established the Drug Strategy Review (DSR) with a mandate to find ways to optimize pharmaceutical care in order to ensure access to the drugs Ontarians need, now and in the future. The DSR is undertaking a review of the Ontario Drug

Benefit Program and developing a strategy aimed at improving pharmaceutical care for patients that will include an examination of access to new and existing drugs, cost-effectiveness and pricing of drugs, appropriate drug use, and program administration."

- A ministry-funded committee, the Ontario Program for Optimal Therapeutics, was focusing on assessing the utilization of drug-use prescribing guidelines. Two areas for review (statins and opiod narcotics) had been identified. The Ministry was reviewing the process for conducting the review of these two areas with the pharmaceutical industry and the Drug Utilization Advisory Committee to ensure that it was aligned with other ongoing work, such as the Drug Benefit Formulary modernization undertaken by the Drug Quality and Therapeutics Committee (DQTC).
- The Ministry was using work conducted by the Institute for Clinical Evaluative Sciences in a number of therapeutic areas to support ongoing work with DQTC's Formulary modernization and to identify areas that may benefit from additional measures to improve prescribing and utilization.

The Ministry informed us that it had contacted the College of Physicians and Surgeons of Ontario and was in ongoing discussion with the College to generate a list of physician identification numbers for the Health Network System database to ensure that prescribers can be identified. In addition, pharmacies have been instructed that valid identification numbers must be used unless the situation is exceptional.

The Drug Formulary—Timely Updates to the Formulary

Recommendation

To help maximize potential savings to the Drug Programs Activity, the Ministry should pursue more timely updating of the Ontario Drug Benefit Formulary when:

- *adding approved generic drugs; and*
- *implementing manufacturers' price reductions.*

Current Status

The Ministry indicated that ministry staff had met with Health Canada staff to further harmonize the Ministry's drug-listing process for generic products with that of Health Canada. The Ministry also participated in a federal/provincial/territorial discussion on streamlining generic products in March 2003 and is currently working on streamlining proposals to ensure timely updating of the Formulary.

According to the Ministry, the Ministry will be considering options for decreasing the time for listing streamlined generic products, which would also enable the Ministry to take timelier advantage of manufacturers' price reductions.

The Drug Formulary—Formulary Modernization

Recommendation

The Ministry should ensure that drugs listed in the Ontario Drug Benefit Formulary are regularly reviewed so that the Ontario Drug Benefit Program only covers the cost of drugs that are appropriate and cost effective.

Current Status

The Ministry advised us that, in August 2002, the Drug Quality and Therapeutics Committee discussed the review of a number of therapeutic categories of drugs and that six drug category reviews—for example, reviews of drugs for osteoporosis and multiple sclerosis—had been completed since December 2002. Three additional reviews had been initiated and were to be completed early in the 2003/04 fiscal year.

Pricing

Recommendation

To better control the drug costs of Ontario's drug programs and to enable the Ministry to more effectively negotiate prices with drug manufacturers, the Ministry should routinely compare the prices it pays for drugs with the prices paid by other provinces.

The Ministry should also review the generic pricing rule to ensure that it does not impede the Ministry from obtaining generic drugs at the lowest possible price.

Current Status

According to the Ministry, Ontario is a member of the Federal/Provincial/Territorial Working Group on Drug Prices, which is examining price initiatives across jurisdictions. As part of its examination of pricing of drugs, the Drug Strategy Review is to examine medium- and long-term pricing options for both brand-name and generic drugs to achieve fair and reasonable prices for new and existing drugs.

The Ministry advised us that it was reviewing the present pricing policy for generic drugs.

Pricing—Pricing Options

Recommendation

To help ensure that it obtains better value for money for its drug expenditures, the Ministry should assess the costs/benefits of pricing options that have been successfully implemented in other jurisdictions.

Current Status

As mentioned earlier, the Ministry is working with other Canadian jurisdictions on this issue. As part of this work, the Ministry is to be undertaking research on key pharmaceutical policy trends, which would include a review of pricing strategies in select jurisdictions.

Written Agreements with Brand-name Drug Manufacturers

Recommendation

To help ensure that drug costs are more effectively managed, the Ministry should:

- *evaluate the extent to which the current written agreement process with drug manufacturers is meeting its objectives; and*
- *make improvements as required.*

Current Status

According to the Ministry, an internal report on the written agreement process had been completed at the time of our follow-up, and a formal review of the written agreement process is to be undertaken by the Drug Programs Branch. The Ministry indicated that a business case for the formal review had yet to be prepared to secure resources and to hire an external consultant.

Health Network System

Recommendation

When selecting a vendor to provide long-term services without using a competitive process, the Ministry should ensure that it:

- *receives value for money through respective contracts with such vendors; and*
- *complies with Management Board of Cabinet directives.*

Current Status

At the time of our 2001 audit, a vendor had been selected without using a competitive process to provide long-term services in developing and maintaining the Health Network System. The Ministry advised us that a consultant had recently prepared a business case and a request for resources (RFR) for a vendor of record to conduct a value-for-money audit of the current contractual arrangements with this long-term-service provider. The business case and RFR were in the process of receiving approval from ministry senior management.

Health Network System—Claims Processing

Recommendation

To help ensure that pharmacy data within the Health Network System (Network) is complete and accurate, the Ministry should periodically verify pharmacy registrations with the Ontario College of Pharmacists.

To help ensure that only eligible individuals receive benefits through the Ontario Drug Benefit Program, the Ministry should:

- *review and follow up on exception reports, which identify mismatched or missing information in the Network's recipients database; and*
- *regularly compare data in the Ministry of Community and Social Services' database with the Network's database.*

Current Status

The Ministry advised us at the time of our follow-up that no changes had been made to the verification process and that the Ministry would continue to review the verification process to identify opportunities to address the first part of our recommendation.

The Ministry also advised us that it was continuing to conduct periodic reviews of exception reporting and was working with the Ministry of Community, Family and Children's Services (the former Ministry of Community and Social Services) to ensure recipient information is as accurate and up to date as possible.

TEMPORARY ELIGIBILITY

Recommendation

To help ensure that temporary eligibility is being granted only where justified, the Ministry should:

- *periodically verify the adequacy of supporting documentation maintained by pharmacies where there are significant numbers of unsubstantiated claims; and*
- *together with the Ministry of Community and Social Services (MCSS), expedite necessary improvements to the MCSS database.*

Current Status

The Ministry advised us that the Ministry of Community, Family and Children's Services (the former Ministry of Community and Social Services) had moved from a weekly to a daily feed to update eligibility and personal information contained on the Health Network System. The Ministry indicated that the daily updates would be monitored to determine whether continuing them is operationally sustainable. The Ministry also indicated that it would review the number of temporary eligibility claims in the 2002/03 fiscal year and compare it to the numbers in previous years. Further steps would depend on the results of this review.

WARNING AND INFORMATION MESSAGES

Recommendation

To improve the effectiveness of the Health Network System's warnings and information messages, the Ministry should assess whether:

- *the existing warning and information messages need to be revised; and*
- *other potential drug therapy problems, such as a therapeutic duplication check, should be added to the Network.*

Current Status

According to the Ministry, staff from the Drug Programs Branch will be conducting a preliminary investigation of additional warning and information message modules that are available and will consider including these modules in the next request for proposals with the data supplier. The Branch also intends to investigate the feasibility and benefits of adding a therapeutic duplication check to the Network.

Health Network System—System Security

Recommendation

To help safeguard information in the Health Network System against unauthorized use, disclosure, modification, damage, or loss, the Ministry should:

- *assign the responsibility for the Network's security to an appropriate senior manager;*
- *ensure appropriate security policies and procedures are in place;*
- *review staff duties to ensure that system access is appropriate;*
- *implement more rigorous controls over the access administration process and system protection; and*
- *ensure that the Network's security is actively monitored.*

Current Status

According to the Ministry, at the time of our follow-up:

- The security administration process had been reviewed and is now managed through one branch manager. Notification of staff changes had been included in the security review.
- The Drug Programs Branch was working with the Health Network System service provider to consolidate all security-related documentation and to update the

documentation where appropriate. A new security document had been finalized and approved.

- The replacement date for the current communications network had been re-scheduled from April 2003 to April 2004. The Ministry indicated that it would continue to implement security procedures as required.

Contract Management

Recommendation

To enhance accountability, the Ministry should ensure that it has adequate policies and procedures in place to monitor whether contracted services are carried out in accordance with the terms, conditions, and performance standards set out in contracts.

Current Status

According to the Ministry, staff from the Ministry's internal audit branch have developed procedures for periodic reviews to address this recommendation. Drug Programs Branch staff met with internal audit staff in February 2003 to review the procedures.

Inspections and Verification—Inspection Resources

Recommendation

To help ensure that inspection resources are used efficiently and effectively, the Ministry should:

- *implement needed improvements to the Pharmaceutical Audit System to facilitate the work of inspectors;*
- *ensure inspection plans are prepared and approved by branch management;*
- *provide for sufficient management review of the work of inspectors; and*
- *review the adequacy of the policies and procedures in the draft manual.*

Current Status

At the time of our follow-up, the Ministry advised us that:

- Due to the public service strike in 2002 and the implementation of projects that had a higher priority than the Pharmaceutical Audit System, implementation of Phase II of the system had been deferred until January 2003. Phase II has now been implemented, and a training program for appropriate staff has now been developed.
- Inspection plans were in place.
- The policies and procedures in the draft manual, which incorporate management review of the work of inspectors, have been reviewed, finalized, and put in place.

Inspections and Verification—Inspection Coverage

Recommendation

To minimize the risk of paying for invalid claims, the Ministry should ensure that sufficient resources are assigned for the inspection of pharmacies.

Current Status

The Ministry advised us that the review of resources in place to inspect pharmacies had yet to be undertaken. The Drug Programs Branch was working with the Ministry's Fraud Programs Branch to establish the terms of reference and timeline for the review.

Inspections and Verification—Verification Letters

Recommendation

To help ensure that the drug programs pay only for valid prescription claims submitted by pharmacists, the Ministry should implement adequate procedures to verify claims with recipients.

Current Status

The Ministry advised us at the time of our follow-up that a review of audit activities in other provinces was being planned. When the review is complete, the Ministry intends to determine which additional procedures are to be implemented in Ontario.

Inspections and Verification—Verification of Limited-Use Drug Forms

Recommendation

To help ensure that the costs of limited-use drugs are only covered where warranted, the Ministry should:

- *ensure that adequate procedures are in place to periodically verify that limited-use claims are supported by valid documentation; and*
- *enforce recoveries where pharmacists do not provide adequate evidence that limited-use drug criteria have been met.*

Current Status

The Ministry indicated that it was still planning to carry out audits of limited-use claims in the future and would make recoveries where claims were not supported by valid documentation. As required, the Ministry obtained Order-in-Council approval to forego the recovery of the outstanding funds from pharmacists related to the limited-use audit carried out in 1997, pursuant to subsection 5(1) of the *Financial Administration Act.*

TRILLIUM DRUG PROGRAM

Recipient Deductibles

Recommendation

To better ensure that Trillium Drug Program benefits are provided in accordance with the intent of the Program, the Ministry should develop policies and procedures to:

- *reduce or eliminate underpayments of the deductible; and*
- *recover any underpaid deductibles.*

Current Status

According to the Ministry, in order to address the possibility of recipients receiving program benefits in one quarter while underpaying their deductibles in other quarters, the Health Network System (HNS) no longer allows pharmacists to dispense more than 30 days of supply of a drug beyond the end of the third quarter of the benefit year (May 30). The HNS now also does not allow a pharmacist to override this control if a client's claim occurs during the third quarter of the year and may result in an underpayment of the deductible. The Ministry is examining options for the recovery of underpaid deductibles.

The Ministry also indicated that the Drug Programs Branch had met with the Canada Customs and Revenue Agency (CCRA) to explore an electronic feed of income data from CCRA. If an electronic feed can eventually be put in place, the Branch will be able to check the seniors' data and validate Trillium data on a regular basis.

SPECIAL DRUGS PROGRAM

Recommendation

The Ministry should consider whether the Special Drugs Program is needed in its current form and whether the administration of the Program could be integrated with the Ontario Drug Benefit and Trillium Drug programs.

Current Status

The Ministry advised us that, in December 2002, a discussion paper with short- and long-term recommendations was approved by the Minister's office. In the short term:

- New brands/formats of existing substances that treat one of the conditions covered by the Special Drugs Program (SDP) are to be added to the list of drugs covered by the SDP to provide choice of products to physicians.
- The SDP is to be automated to actively manage and increase accountability in the system.

- The Ministry has informed hospitals, stakeholder groups, and manufacturers of the changes to the SDP and the process for adding new brands/formats of existing substances.

The Ministry also indicated that it would continue to consult with stakeholders as it moves towards the longer-term objective of integration of the Special Drugs Program with the Trillium Drug Program. The Ministry noted that the benefits of integrating the two programs include equal and convenient access to drug therapy for all patients, fair treatment of all manufacturers, and increased accountability for claimants (that is, patients, physicians, and institutions/pharmacies). However, a target date for the integration of the two programs had not been set.

Payment Processing

Recommendation

To help ensure that payments from the Special Drugs Program are reasonable, the Ministry should:

- *establish procedures to compare invoiced amounts to prices in contracts between hospitals and manufacturers;*
- *ensure any administrative costs being paid to a hospital are justified; and*
- *monitor the volume of drugs paid for by the Program.*

Current Status

According to the Ministry, at the time of our follow-up:

- Procedures had been updated to ensure routine checking of all invoices from hospitals.
- Automation of the Special Drugs Program (SDP) would be piloted at three hospitals in April 2003. Initially, the automation would involve online claims adjudication for two of the eight categories of products that are reimbursed under the SDP. Automation would then be rolled out to other SDP hospitals linked to the Ministry's Health Network System over a period of three to four months.
- Hospitals not linked to the Network would need to purchase software and hardware in order to get the linkage. Automation of claims from these hospitals would occur over a longer period, likely four to six months.

The Ministry also indicated that, during the phasing-in of automation, both the manual invoicing and online adjudication systems for reimbursements would be in place. In addition, options for automating the other six categories of SDP drugs were being researched by category, since each category has unique issues with respect to, for example, distribution and monitoring programs needed to ensure the safety of therapy.

The Ministry also indicated that it now has a process in place to check that each invoice has been properly priced and that all proper documentation, including support for administrative costs paid to hospitals, has been submitted.

PERFORMANCE MEASUREMENT AND REPORTING

Recommendation

To provide better accountability to the public and the Legislature, the Ministry should develop a comprehensive set of performance measures and report regularly and publicly on the performance of the drug benefit programs.

Current Status

The Drug Programs Branch has posted its annual report on the ministry Web site (at ***http://www.health.gov.on.ca:80/english/public/pub/ministry_reports/odb_report01/drug_rep.html***). The report includes sections on: financial indicators; clinical indicators; customer service; and operational policy.

The Ministry advised us that, in response to the *2003 First Ministers' Accord on Health Care Renewal*, the Drug Programs Branch identified 11 possible performance measures. Three of these measures are to be investigated further through the Pharmaceutical Care Working Group, which was one of the five working groups established in response to The Commission on the Future of Health Care in Canada (headed by Roy Romanow) and the First Ministers' Health Accord.

4.10–Assistive Devices and Home Oxygen Programs

(Follow-up to VFM Section 3.10, *2001 Annual Report*)

BACKGROUND

The Assistive Devices Program and the Home Oxygen Program are administered by the Operational Support Branch of the Ministry of Health and Long-Term Care. According to the Ministry, the objective of both programs is to "financially assist Ontario residents with long-term disabilities to obtain basic, competitively priced, personalized assistive devices appropriate for the individual's needs and essential for independent living." Both programs are funded under the *Ministry of Health Act*.

During the 2002/03 fiscal year, the Ministry provided financial assistance totalling approximately $214 million to 193,000 individuals. The Ministry also provided approximately $8.5 million to transfer-payment agencies for services relating to assistive devices. During the 2000/01 fiscal year, the Ministry provided financial assistance totalling approximately $184 million to 176,000 individuals. It provided approximately $8 million to transfer-payment agencies for services relating to assistive devices.

At the time of our 2001 audit, we found that the Ministry did not have adequate procedures to ensure that it was paying the best prices for assistive devices acquired. Specifically, we noted that:

- Ministry-initiated independent research indicated that 41% of approved renewals for home oxygen met no eligibility criteria for receiving ministry-funded home oxygen. Reducing this number by one-half could have saved the Home Oxygen Program over $5 million annually.
- The Ministry could have saved in the order of $3 million to $5 million annually if home oxygen vendors were paid the same price as vendors were paid in Alberta.
- For three types of commonly purchased wheelchairs, the Ministry could have saved approximately $1.9 million annually if it paid the same price as Quebec paid for these wheelchairs.

The Ministry generally had adequate procedures in place to ensure that claims were properly approved, processed, and paid but needed to improve its procedures for measuring and reporting on the effectiveness of the programs.

We had made a number of recommendations for improvement and received commitments from the Ministry that it would take corrective action.

CURRENT STATUS OF RECOMMENDATIONS

According to information obtained from the Ministry, the Ministry has taken some action on all of the recommendations we made in our *2001 Annual Report*. The current status of each of our recommendations is as follows.

MANAGEMENT OF RESOURCES

Home Oxygen Program—Eligibility—Oximetry Tests

Recommendation

To help ensure that funding for home oxygen is provided only to individuals who meet the Ministry's eligibility criteria, the Ministry should:

- *assess whether blood gas tests should be used rather than oximetry tests;*
- *assess whether to retest home oxygen recipients earlier than a year from the time an individual begins receiving home oxygen; and*
- *establish clear criteria, guidelines, or definitions to address situations where individuals are experiencing low oxygen levels during exercise or sleep.*

Current Status

At the time of our follow-up, the Ministry indicated that:

- New applicants to the Home Oxygen Program who are 19 years of age or older must have a blood gas test performed to show that they need oxygen therapy. At 90 days and at 15 months after the use of home oxygen has started, the need for oxygen must be reassessed. At each stage, an oximetry test must be done to confirm the continued need for oxygen therapy.
- The Medical Criteria Task Force, which reports to the Respiratory Services Standing Committee established by the Ministry, made recommendations for establishing a reliable, standardized endurance protocol for exercise hypoxemia. In response, the Home Oxygen Program was working with the Task Force to determine specific eligibility criteria based on this protocol and plans to establish and communicate the new policy to stakeholders by fall 2003.
- The Medical Criteria Task Force has agreed that further investigation and research is required to determine the implications of nocturnal hypoxemia. If patients spend 30% or more of the night with reduced oxyhemoglobin saturation, this may merit funding for home oxygen. However, the recommendation from the Respiratory Services Standing Committee was that funding for nocturnal hypoxemia should not be made available at this time.

Ostomy Grants

Recommendation

To ensure that payments for ostomy supplies over the maximum amount are warranted, the Ministry should, at a minimum, assess the current needs of individuals receiving significantly more funding than the current maximum grants.

Current Status

At the time of our follow-up, the Ministry indicated that it has contracted with an organization to undertake an assessment of individuals receiving significantly more funding than the current maximum grants. A survey tool for the assessment has been approved, and the Ministry expects that a summary report will be available in summer 2003.

Replacement Devices

Recommendation

To better ensure that devices are only replaced when justified, the Ministry should review the reasonableness of its established replacement periods, particularly for those devices that are often being replaced early.

Current Status

At the time of our follow-up, we were informed by ministry staff that effective March 31, 2002 four standing committees organized for the four medical device categories—Prosthetics and Orthotics; Respiratory Services; Sensory; and Wheelchair, Positioning and Ambulation Aids—were operating. Each committee comprises representative vendors, manufacturers, health care professionals, and consumers, and their role is to provide policy advice on various issues, including eligibility. The four standing committees will also be asked to advise on the appropriateness of current replacement periods.

As well, the Assistive Devices Program was establishing a project to analyze the actual replacement time periods for hearing aids.

Computer Purchases

Recommendation

To help ensure that the Assistive Devices Program is paying competitive prices for computer equipment, the Ministry should:

- *pay only for approved devices;*
- *review the approved amount and pay only what is necessary; and*
- *ensure clients provide, at a minimum, one price quotation from the ministry-funded equipment pool or another supplier.*

Current Status

At the time of our follow-up, the Ministry indicated that:

- The Ministry now had, in its procedures for approving invoices, all of the necessary checks for ensuring that only approved computers to be used for communication aids or aids for the visually impaired are paid for and that approvals are given only for what is necessary.
- The Assistive Devices Program's Finance and Audit unit was verifying invoices submitted to the Program, following payments, to ensure that vendors were following program policies. Unit staff began site visits with selected vendors commencing in September 2002.
- The Ministry had completed a pricing framework for assistive devices, including computer equipment, and it had hired a consulting firm to complete a pricing review to ensure that prices listed for products were competitive.
- The policy for communication aids and visual aids now clearly requires that clients submit at least two price quotations when an equipment pool or registered vendor is not used.

Approval of Devices for Coverage

Recommendation

To help ensure that only appropriate devices are funded under the Assistive Devices Program, the Ministry should document procedures for the inclusion of all new devices in each category in the Program's catalogue.

Current Status

The Ministry has updated procedures for adding and removing devices from the catalogue and has posted them on the ministry Web site to provide clear policy information for stakeholders. The Ministry advised us that, at the time of our follow-up, these procedures were being followed and that Assistive Devices Program staff were working to update all policy manuals, which would then be posted on the Program's Web site.

Pricing—Home Oxygen Program

Recommendation

To better ensure that the prices it is paying for home oxygen are reasonable, the Ministry should:

- *consider tendering for home oxygen on a test basis in larger urban centres;*
- *closely monitor oxygen prices being paid by other provinces to ensure Ontario's higher volumes are reflected in the comparative rates being paid; and*

- *determine whether paying a single flat rate is more economical than negotiating different rates for liquid oxygen and concentrators.*

Current Status

At the time of our follow-up, the Ministry indicated:

- It had discussed the feasibility of tendering for home oxygen in larger urban centres with home-oxygen vendors and other stakeholders. The Ministry informed us that, before negotiating the next agreement in fall 2003, the Ministry intends to prepare a business case and update the information on rates being paid by other provinces.
- Ministry staff intend to design a system for collecting statistics on the use of liquid oxygen and concentrators when preparing the strategy for negotiating the next agreement.

Pricing—Assistive Devices Program

Recommendation

To help ensure that it is paying competitive prices for the devices funded under the Assistive Devices Program, the Ministry should:

- *conduct a comprehensive review of the prices listed for all devices covered by the Assistive Devices Program; and*
- *obtain competitive bids from manufacturers or suppliers for devices that are similar in nature.*

Current Status

According to the Ministry, at the time of our follow-up:

- A new pricing framework for the Assistive Devices Program had been approved.
- It had hired a consulting firm to complete a pricing review of high-risk and high-value products funded by the Program and to develop a mechanism for ongoing price updates.
- Ministry senior management was considering options for establishing a new equipment pool funded by the Ministry which would also provide comparative price quotations.

Verification of Claims

Recommendation

To better ensure that individuals have actually received the devices and services paid for under its Assistive Devices and Home Oxygen programs, the Ministry should expand its verification letter process to cover all assistive device categories. The Ministry should also:

- *track verification letters sent and replies received;*
- *follow up on any discrepancies or non-replies on a timely basis; and*
- *ensure that verification letters include sufficient detail to allow the Ministry to determine whether vendors are providing all the services and equipment required under their contracts.*

For claims submitted on computer disks, the Ministry should periodically inspect signed invoices maintained by the vendors.

Current Status

The Ministry advised us that, at the time of our follow-up:

- The Finance and Audit Unit had established letter verification and tracking processes for all assistive device categories.
- Ministry staff had started conducting regular site visits with selected vendors in September 2002.
- Ministry staff complete monthly reports on suspected cases of fraud and recoveries to be pursued with vendors. Assistive Devices Program staff were working with the staff of the Ministry's Fraud Program Branch to jointly identify policies and procedures that would assist in preventing fraud.

Accountability of Transfer-payment Agencies

Recommendation

To help ensure that transfer-payment agencies funded by the Assistive Devices Program are providing services economically and efficiently, the Ministry should:

- *ensure that it receives sufficient and appropriate financial information for assessing whether funds are being used for the purposes intended;*
- *ensure that the distribution of funds is commensurate with the value of services provided; and*
- *compare the costs to provide services among similar agencies.*

Current Status

According to the Ministry, service agreements with transfer-payment agencies have been updated and the Ministry has requested that agencies provide additional reports with more detail on what services are being provided to clients.

In addition, Assistive Devices Program staff had:

- implemented a revised annual budget approval process for transfer-payment agencies in 2001/02;

- implemented an annual training process relating to the budget submission process and new reporting requirements for agency staff and had completed two training sessions (all agencies are required to send one or two staff for training); and
- developed statistical information packages to ensure consistent reporting by agencies and had trained agency staff in how to use them.

Consulting Services

Recommendation

To better ensure that value for money is received when engaging consultants, the Ministry should ensure that:

- *consultants are engaged through a competitive process; and*
- *long-term needs are addressed by hiring employees rather than engaging consultants at a rate of remuneration significantly exceeding the amounts paid to government employees performing similar duties.*

Current Status

The Ministry advised us that a competitive process would be used for future arrangements with consultants. For instance, at the time of our follow-up, it had received approval to hire three system programmers, and competitions for these positions were in process. In the meantime, a competitive process had been used to hire, on an interim basis, three system programmers on a fee-for-service basis.

CLAIMS APPROVAL, PROCESSING, AND PAYMENT

Recommendation

To help ensure that Assistive Devices and Home Oxygen program payments are made only for valid claims, the Ministry should implement procedures to run computer checks to identify payments made on behalf of individuals who are deceased.

Current Status

The Ministry advised us that, at the time of our audit, Assistive Devices Program staff were now receiving recoveries for deceased clients on a regular basis and that processes were now in place to ensure that files for deceased clients were designated inactive in a timely manner.

PERFORMANCE MEASUREMENT, MONITORING, AND EVALUATION

Recommendation

To better monitor and evaluate the performance of the Assistive Devices and Home Oxygen programs, the Ministry should:

- *ensure its information systems provide accurate and timely reports on all key performance measures; and*
- *reinstate the standing committees that provide technical advice for all major assistive device categories.*

Current Status

According to the Ministry, it has developed performance measures and indicators, and monthly progress reports began to be generated and distributed internally in July 2002. The movement of all performance data to the new version of the information system was nearing completion. In addition, the Ministry has developed new tracking systems for financial forecasting, and internal reports are now available.

As mentioned earlier, standing committees have been organized for the four medical device categories. At the time of our follow-up, the committees were meeting regularly to advise on operational policy changes.

Complaints Process

Recommendation

To help identify any areas requiring improvements in the delivery of the Assistive Devices and Home Oxygen programs, the Ministry should ensure that:

- *complaints are investigated in a timely manner; and*
- *the results of those investigations are provided to senior management.*

Current Status

The Assistive Devices Program has implemented a new customer feedback/complaint resolution process that tracks issues raised by clients, vendors, individuals and organizations with authorizing authority, and others. This process also includes timelines for responses. Quarterly reports on complaints are provided to ministry senior management.

The Ministry also indicated that, at the time of our follow-up, ministry staff had begun to design and implement a customer satisfaction survey.

OTHER MATTER

Benefits from Other Government Sources

Recommendation

To help ensure that assistance under its Assistive Devices and Home Oxygen programs is not duplicated at taxpayers' expense, the Ministry should again pursue co-operation with the Workplace Safety and Insurance Board and the Department of Veterans' Affairs.

Current Status

According to the Ministry, at the time of our follow-up, its Fraud Programs Branch was pursuing co-operation with the Workplace Safety and Insurance Board and the Department of Veterans' Affairs.

MINISTRY OF TRANSPORTATION

4.11–Road User Safety Program

(Follow-up to VFM Section 3.11, *2001 Annual Report*)

BACKGROUND

The Ministry of Transportation's goal is to foster improved road user safety and well-planned highway expansion and preservation to bolster provincial growth and development. The Ministry's Safety and Regulation Division administers the Road User Safety Program by setting safety standards, enforcing compliance with those standards, testing and licensing drivers and vehicles, and educating road users about safe driving behaviour.

To carry out its responsibilities, in 2001, the Ministry operated 48 driver examination centres and had contracted with 280 private issuing offices to provide driver and vehicle licence renewal and related services. During the 2000/01 fiscal year, the Ministry administered 611,000 road tests and processed over 18 million over-the-counter transactions. In the same year, the Program spent $101 million, and its licensing and registration activities generated approximately $894 million in revenue.

During the course of our 2001 audit of the Road User Safety Program, the Ministry had not provided us with all the information and explanations needed to complete the audit. We subsequently received a commitment from both the new Minister and Deputy Minister of Transportation and saw evidence that corrective action would be taken to ensure that the access-to-information problems we had encountered would not reoccur in the future.

Sufficient information and explanations were received in 2001 for us to conclude that in managing resources for its Road User Safety Program, the Ministry was deficient in ensuring due regard for economy and efficiency, it did not ensure compliance with programs designed to enhance road safety, and its procedures to measure and report on program effectiveness were not satisfactory. Our major concerns in 2001 included:

- A significant number of applicants had to wait over six months to take a road test to try to obtain a driver's licence.
- Extreme variations in driver examiner pass rates were allowed to persist for over 10 years without corrective action being taken.
- Road user safety was impaired because some drivers' road tests had been shortened below the minimum standard time for properly evaluating necessary driving skills.
- The Ministry hired 280 additional staff for driver testing in the 16 months ended January 2001 at a cost of $10.3 million and then opted for outsourcing driver testing to the private sector without a completed business case to justify this outsourcing.

- The Ministry planned to spend $101 million on computer systems work but, at the time of our audit, it did not provide us with assurance that the proposed system was supported by a properly completed business case.
- Millions of dollars' worth of consultants' work was mismanaged as consultants were often selected without a competitive tendering process or engaged without a written contract in place.
- Certain driver's-licence suspensions for impaired driving were rescinded without follow-up because the Ministry did not receive prompt notification of the suspension from the police.
- A backlog of 30,000 reports from medical practitioners had accumulated, some dating back as far as 1997, allowing drivers to operate vehicles even though they were reported to have conditions that could make it dangerous for them to do so.
- The Ministry did not meet its annual reporting requirement on road user safety to the Legislature. At the time of our audit, the last report tabled was for 1997 and did not contain recommendations for the prevention of motor vehicle accidents as required by the *Highway Traffic Act*.
- Customer service needed improving given that 49% of people responding to ministry comment cards were dissatisfied, mainly because of lengthy wait times, service not being prompt and efficient, and staff not being courteous and helpful.

Accordingly, we made a number of recommendations to overcome these deficiencies and received commitments from the Ministry that it would take corrective action.

CURRENT STATUS OF RECOMMENDATIONS

The Ministry had taken or was in the process of taking corrective action on all of the recommendations made in our *2001 Annual Report*. The current status of each of our recommendations is outlined below.

DUE REGARD FOR ECONOMY AND EFFICIENCY

Driver Examinations

Recommendation

To help ensure that the driver examination function of the Road User Safety Program efficiently meets its objective of passing only qualified individuals, the Ministry should:

- *periodically revise written tests;*
- *achieve the six-week waiting time standard for road tests;*

- *implement procedures, including periodic training for examiners, to better achieve consistency in the application of driver test standards; and*
- *adequately test and evaluate applicants in accordance with ministry driver test standards.*

Current Status

Information provided by the Ministry indicates that waiting times to take a road test remain a chronic problem in some regions of the province. As of May 10, 2003 the average waiting period for all the regions was 8.3 weeks for the G1 driver's test and 10.2 weeks for the G2 driver's test. Some driver examination centres were experiencing wait times of up to 26 weeks and 34 weeks for the G1 and G2 tests respectively. The Ministry indicated to us that it expects the six-week standard waiting time to be achieved when the new private-sector service provider takes over the driver examination centres in fall 2003.

The Ministry also indicated that it had implemented ongoing reviews of written tests and has developed a bank of new questions that has been in use since January 2003. In addition, the application of driver-test standards and the testing of applicants is now monitored by management staff, and corrective action is taken if driver examiners do not consistently apply the standards.

Alternative Service Delivery

Recommendation

To ensure that potential outsourcing alternatives for the driver examination function of the Road User Safety Program are analyzed in an objective and thorough manner, the Ministry should:

- *comply with the Management Board of Cabinet Framework on Alternative Service Delivery and ensure that a comprehensive business case is prepared prior to seeking approval for any option; and*
- *ensure that documents submitted to Cabinet—upon which major decisions are to be based—are complete or clearly identify the limitations of the information.*

Current Status

The Ministry informed us that in November 2001, it completed a business case for the alternative service delivery of the driver examination function and subsequently updated the financial information in the business case to March 31, 2002. The Ministry also indicated that, in December 2002, it reported the results of the bidding selection process to the Cabinet Committee on Privatization and SuperBuild. The report to the Committee included financial information from the Ministry's business case and a recommendation to proceed with awarding a contract to the successful bidder.

The successful bidder signed a 10-year licence agreement on February 24, 2003, and agreed to pay the Ministry $114 million, as well as $200,000 per month for compliance and audit monitoring. The agreement entitles the bidder to the driver examination fees over the 10-year period. The bidder paid the Ministry a deposit of $7.98 million and will pay the balance of $106.02 million when the driver examination function is transferred, which is expected to be in fall 2003.

Information Technology

As we reported in 2001, the Ministry had submitted a business case to Management Board of Cabinet for renewing the legacy system that supports the licensing and registration of drivers and vehicles. The total cost of the proposed renewal, which was to be completed in the 2003/04 fiscal year, was projected to be $101 million and was approved by the Management Board of Cabinet in December 2000. At the time of our audit, the Ministry did not provide us with the necessary supporting information for this project. Therefore, at that time, we could not provide assurance that the proposed legacy system renewal was based on a properly completed business case and strategic plan.

Current Status

The Ministry informed us that it has since prepared a new business case, which includes a detailed migration plan and the recommended design framework, which was communicated to Management Board of Cabinet through its 2002/03 and 2003/04 Business Planning and Allocations process. Due to changes and refinements to some projects from the preliminary plans in the original business case, the completion date for the system renewal project has been revised to December 2005 and the cost revised to $112 million.

Consulting Services

Recommendation

To ensure that consultants are engaged in a fair and competitive manner and that value for money is being received, the Ministry should:

- *properly justify the need for consultants' services and document estimated costs before consultants are hired;*
- *define the scope of the work and ensure contracts are signed before consultants begin their assignments;*
- *select consultants based on an evaluation of the experience, qualification, and price of more than one supplier as required by Management Board of Cabinet directives, even if suppliers are selected from the vendor-of-record list prepared by the Management Board Secretariat;*
- *not allow suppliers to gain a monopoly for any particular kind of work;*

- *help ensure fair competition by not awarding the same consultant successive agreements that cumulatively exceed the competition threshold of $25,000;*
- *enforce the ceiling of contracts when the terms and conditions of an agreement remain unchanged; and*
- *formally evaluate consultants when their assignments have been completed.*

Current Status

The Ministry informed us that it has introduced a new monitoring system that will control the acquisition of consulting services from start to finish. As well, mandatory staff training was implemented, as was an acquisition/evaluation process checklist to ensure compliance with government procurement procedures.

Private Issuers

Recommendation

To ensure that private issuers of the Road User Safety Program are properly managed, the Ministry should:

- *review the current agreements with issuers to incorporate the roles and responsibilities of both parties and include a non-performance clause, as well as make the Performance Management Program mandatory for all issuers;*
- *impose penalties on issuers that, contrary to ministry procedures, consistently process transactions to increase commissions;*
- *hold issuers financially responsible for lost stock when the proper safeguarding procedures have not been followed;*
- *hire new issuers on a timely basis to minimize disruptions to customer service; and*
- *ensure that resources to train new issuers and monitor existing ones are adequate and consistent throughout the province.*

Current Status

As part of its Private Issuer Project, the Ministry reviewed its current agreement with private issuing offices and revised it for new issuers. This agreement incorporates penalties for non-performance, the reimbursement of overpaid commissions, and a strengthening of the termination clause. However, the majority of issuers still operate under the old agreements, and the Ministry does not have a date for implementing the new requirements for this group. The Ministry informed us that the date would be determined during the second phase of the Private Issuer Project.

With respect to hiring issuers on a timely basis, we reported in 2001 that it took up to six months to complete the selection process. The Ministry informed us that in 2002, seven new private issuers were selected through an enhanced procurement process. On average, it took four months from the date the request for proposal was issued to the date the top bidder accepted the opportunity in writing. The Ministry ensured that there was no loss of service continuity in the areas affected.

In November 2001, the Ministry issued stock and cash management procedures and guidelines that outline the issuers' responsibilities for stock, cash, staff, and security. In May 2003, the Ministry was still reviewing the security plans provided by issuers to ensure that the plans comply with the new policy. The Ministry is also developing a policy to hold issuers financially accountable and to charge them for the cost of investigating missing stock if the issuer was determined to be at fault.

The Ministry informed us that it was now providing ongoing instruction to its Issuing Office Administrators, who monitor private issuing offices, to help ensure that all Administrators properly train all new private issuers.

Revenue Collection and Control

Recommendation

To help ensure that the Ministry receives all the funds it is entitled to from driver licensing and vehicle registration fees, it should:

- *fully reconcile the transactions carried out and deposits made by private issuing offices on a timely basis and follow up on any discrepancies;*
- *reinforce ministry cheque acceptance policies with private issuers and enforce measures to hold them accountable for any breach of policy;*
- *fully examine current collection procedures for NSF (not sufficient funds) cheques and consider policy and/or legislative changes to improve them; and*
- *transfer funds to be remitted to municipalities from the collection of parking fines only after cheques from vehicle owners have cleared the bank.*

Current Status

The Ministry informed us that it has made a number of changes to ensure that it receives all funds it is entitled to from driver licensing and vehicle registration fees. These included: using an automated reconciliation program to reconcile transactions to deposits, establishing a more rigorous collection procedure for NSF (not sufficient funds) cheques, sending accounts older than two years to a collection agency, and pursuing policy options with the ministries of the Attorney General and Municipal Affairs and Housing for more timely remitting of outstanding parking fines to municipalities.

The Ministry also informed us that, with the passage of the *Government Efficiency Act, 2002*, which amended related parts of the Highway Traffic Act, it was developing a process for cancelling driver's licences and denying vehicle plate renewals when individuals have outstanding debts with the Ministry. In this regard, the Ministry was reviewing potential system changes to link its vehicle registration system with the driver licensing system to facilitate collection efforts.

COMPLIANCE WITH POLICIES AND PROCEDURES

Driver Performance Monitoring and Intervention

Recommendation

To help reduce the risk of motor vehicle accidents and improve driver performance, the Ministry should:

- *ensure that drunk-driver suspensions are only rescinded when such action is appropriately justified;*
- *review and take action on reports of drivers who do not meet the minimum medical fitness standards on a more timely basis;*
- *ensure that appropriate intervention for drivers who have accumulated excessive demerit points is undertaken on a timely basis;*
- *develop standard training programs for driver improvement counsellors; and*
- *ensure that counsellors have full information for making informed recommendations on potential licence suspensions and other remedial actions.*

Current Status

The Ministry has made process and automated systems improvements to the Administrative Driver's Licence Suspension program so that drunk-driver suspensions are not rescinded as a result of notices not being received by the Ministry within the prescribed time. The Ministry informed us that for 2002, none of the suspensions under this program had been rescinded as a result of notices not being timely.

With respect to medical fitness reports, the Ministry's standard timeframe for processing these forms in order to suspend a driver's licence is three to eight weeks. According to the Ministry, the backlog we noted in 2001 (the Ministry defines the backlog as cases older than six months) has been eliminated so that only current cases are now being processed. In addition, the Ministry has been working with the Ontario Medical Association to clarify the medical conditions that need to be reported and introduced a bill (*Road Safety Act, 2003*) in the Legislative Assembly in May 2003 to formalize these medical conditions and the reporting guidelines.

As for the demerit-point system and related licence suspensions by driver improvement counsellors, the Ministry informed us that it hired additional staff to ensure that backlogs do not occur. In addition, all counsellors have received additional training with respect to suspension standards and are now provided with full information on a driver's record, including information on criminal convictions.

Disabled Person's Parking Permits

Recommendation

To ensure that only persons who are entitled to disabled person's parking permits receive them, the Ministry should:

- *verify that the person attesting to the applicant's medical condition is a member of the medical profession;*
- *consider requiring certification that the applicant's disability does not impair the person's ability to safely operate a vehicle; and*
- *consider verifying that the disabled parking permit holder is still entitled to a permit when the application for renewal is received.*

Current Status

Effective March 1, 2002, the Ministry implemented a new renewal and medical verification process. Permit holders are now required to have a medical practitioner recertify that the medical condition that makes them eligible for a disabled person's parking permit still exists at each renewal date. Also, the Ministry has outlined new offences and increased penalties for the misuse of permits in the *Ontarians with Disabilities Act, 2001*.

MEASURING AND REPORTING ON PROGRAM EFFECTIVENESS

Road Safety

Recommendation

To improve the effectiveness of the Road User Safety Program in making Ontario roads safer, the Ministry should:

- *include the required recommendations for the prevention of motor vehicle accidents in its* Ontario Road Safety Annual Report *and ensure the report is prepared on a timely basis;*
- *review the driver-training time reductions within the Graduated Licensing System, update its* Driver's Handbook, *assess the merits of public education programs for new drivers, and implement any necessary changes to help reduce the collision risks of novice drivers; and*
- *carry out the planned study of its program for senior drivers to assess its effectiveness in identifying potentially unsafe drivers.*

Current Status

The Ministry's latest *Ontario Road Safety Annual Report* was for 2001, and it is planning to issue the 2002 annual report by the end of 2003. The Ministry informed us that, subsequent to our audit, all of its annual safety reports contain recommendations for the prevention of motor vehicle accidents and indicate planned education and intervention programs for improving road user safety.

To ensure that drivers are properly trained and tested to operate a motor vehicle, the Ministry updated its *Driver's Handbook* to reflect legislative changes to the rules of the road. The next planned update was scheduled for November 2003. In addition, the Ministry introduced a pilot public education program in April 2001 to reduce collision risk for novice drivers. By fall 2003, the Ministry intended to continue this program with educational videos and school and community programs.

With respect to novice drivers, the Ministry informed us that an overall evaluation of the Graduated Licensing System, including the reduction in waiting time to take the next driver test that is granted to those who take an approved driver education course, was being completed by the Traffic Injury Research Foundation in partnership with the Insurance Bureau of Canada. A final report was expected in summer 2003. The Ministry also completed a study of its program for senior drivers and determined that the fatal collision rate for seniors had decreased since it had implemented biennial testing.

Customer Service

Recommendation

To improve the customer service provided under its Road User Safety Program, the Ministry should:

- *analyze customer comments for common concerns;*
- *establish a repository of best practices used by offices to address such concerns; and*
- *establish internal performance benchmarks with respect to waiting times for over-the-counter services and periodically report on performance by office and region against established benchmarks.*

Current Status

According to the Ministry, it completed an analysis of customer comments and identified best practices used by offices to deal with the concerns. This information, along with other research carried out by the Ministry, was being put into a repository, which is shared with regional staff to improve customer service. With respect to developing internal performance benchmarks for waiting times for over-the-counter services, the Ministry informed us that initiatives to improve customer service will be included in the second phase of the Private Issuers Project and are reflected in the contract for the alternative service delivery of the driver examination function. The contract stipulates that a customer's wait time for service is not to exceed twenty minutes. The Ministry intends to monitor this requirement and to take corrective action as necessary.

Effectiveness Measures

Recommendation

To measure the effectiveness of the Road User Safety Program and its initiatives to achieve safer roads, the Ministry should:

- *develop goals or outcomes over which the Program has a reasonable degree of influence; and*
- *develop performance measures that demonstrate how program initiatives contribute to the Program's goals or outcomes.*

Current Status

In evaluating the Road User Safety Program's performance, the Ministry will continue to measure its rate of fatalities per 10,000 licensed drivers and the percentage of customers satisfied with the services provided by the Private Issuing Network (as reported in the Ministry's business plans). As well, the Ministry is now measuring and reporting on the percentage of vehicle occupants wearing seat belts. The Ministry acknowledges that the outcomes of these performance measures cannot be attributed exclusively to the Program but have detailed their contribution to achieving its goals in its business plans. The Ministry informed us that it is still evaluating current performance measures and best practices from other jurisdictions to help in developing additional program-level performance measures.

CHAPTER FIVE

Public Accounts of the Province

INTRODUCTION

The Public Accounts for each fiscal year (the fiscal year ends March 31) are prepared under the direction of the Minister of Finance, as required by the *Ministry of Treasury and Economics Act*. The Act requires the Public Accounts to be delivered to the Lieutenant Governor in Council for presentation to the Legislative Assembly not later than the tenth day of the first session held in the following calendar year. This year, as a result of the election on October 2, 2003, the Public Accounts were not finalized until late in the fall.

The financial statements of the province, which form part of the Public Accounts, are the responsibility of the Government of Ontario. This responsibility encompasses ensuring that the information in the statements, including the many amounts based on estimates and judgment, is presented fairly. The government is also responsible for ensuring that a system of control with supporting procedures is in place to provide assurance that transactions are authorized, assets are safeguarded, and proper records are maintained.

Our Office audits the financial statements of the province. The objective of this audit is to obtain reasonable assurance that the financial statements are free of material misstatement—that is, that they are free of significant errors or omissions. The financial statements, along with the Auditor's Report on them, are included in the province's annual report and provided in a separate volume of the Public Accounts.

The province's annual report contains, in addition to the financial statements, summaries and analyses of the province's financial condition and fiscal results. Providing such information enhances the fiscal accountability of the government to both the Legislative Assembly and the public.

The Public Accounts also include three supplementary volumes:

- Volume 1 contains the Consolidated Revenue Fund schedules and ministry statements. These schedules and statements reflect the financial activities of the government's ministries on a modified cash basis of accounting.
- Volume 2 contains the financial statements of the significant provincial Crown corporations, boards, and commissions that are part of the government's reporting entity, as well as other miscellaneous financial statements.

- Volume 3 contains further details of public expenditures as well as the Ontario Public Service senior salary disclosure.

Our Office reviews the information in the annual report and the three supplementary volumes for consistency with the information presented in the financial statements.

Legislative changes to the *Ministry of Treasury and Economics Act* have been made with respect to the Public Accounts reporting process. Effective for the fiscal year commencing April 1, 2003, the province's annual report, except in extraordinary circumstances, is to be delivered to the Lieutenant Governor in Council on or before the 180th day after the end of the fiscal year. The Lieutenant Governor in Council must then either lay the Public Accounts before the Assembly or, if the Assembly is not in session, make the Public Accounts public and, once the Assembly resumes sitting, lay them before the Assembly on or before the tenth day of the next session. Normally, the three supplementary volumes must be submitted to the Lieutenant Governor in Council before the 240th day after the end of the fiscal year. The Lieutenant Governor in Council must then lay the information before the Assembly or, if it is not in session, make the information public and then, when the Assembly resumes sitting, lay it before the Assembly on or before the tenth day of that session.

THE PROVINCE'S 2002/03 FINANCIAL STATEMENTS

The *Audit Act* requires that the Provincial Auditor report annually on the results of the Auditor's examination of the province's financial statements. This year, as a result of the Provincial Auditor's retirement, it was my responsibility, in my capacity as the Assistant Provincial Auditor, to express an audit opinion on the financial statements. I am pleased to report that my Auditor's Report to the Legislative Assembly on the financial statements for the year ended March 31, 2003 is clear of any qualifications or reservations and reads as follows:

> To the Legislative Assembly of the Province of Ontario
>
> I have audited the consolidated statement of financial position of the Province of Ontario as at March 31, 2003 and the consolidated statements of operations, change in net debt, and cash flow for the year then ended. These financial statements are the responsibility of the Government of Ontario. My responsibility is to express an opinion on these financial statements based on my audit.
>
> I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles used and significant estimates made by the Government, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Province as at March 31, 2003 and the results of its operations, the changes in its net debt, and its cash flows for the year then ended in accordance with accounting principles recommended for governments by the Canadian Institute of Chartered Accountants.

[signed]

Toronto, Ontario
September 19, 2003

Jim McCarter, CA
Assistant Provincial Auditor

ACCOUNTING FOR CAPITAL ASSETS

The Ontario government prepares its financial statements in accordance with the accounting principles recommended for governments by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. In January 2003, PSAB revised a 1997 standard setting out rules for the recognition, measurement, amortization, and presentation of capital assets in a government's financial statements. Until recent years, most governments, including that of Ontario, have charged to operations 100% of the cost of capital assets in the year the capital assets were acquired or constructed. The revised standard recommends that capital assets be recorded as assets in the financial statements at cost and be amortized to expense over their estimated useful lives (this is the basis of accounting for capital assets followed in the private sector). Related revisions recommend that the government report both its net debt and its accumulated deficit (net debt minus non-financial assets) on its statement of financial position and that the accumulated deficit accordingly be reduced by the unamortized value of government capital assets.

In its spring 2001 Budget, the Ontario government announced its intention to adopt the PSAB recommendations relating to tangible capital assets. The government began phasing in this approach for the 2002/03 fiscal year under the direction of the Provincial Controller, concentrating its efforts on capitalizing its land holdings, buildings, and transportation infrastructure. Our Office supports the government's phased-in approach as a reasonable method for implementing PSAB's capital asset standards. The result of the exercise this year has led to the recognition, for the first time in the government's accounts, of net capital investments of over $13 billion. This accounts for an estimated 90% or more of the government's total tangible capital assets.

Ontario's remaining tangible capital assets, such as computer systems, vehicles and equipment, and other smaller-value items, will be identified, valued, and included in the government's financial statements in subsequent years. PSAB has specifically excluded from its current standard the need to address and value such difficult-to-capitalize assets as works of art, historical treasures, natural resources, and Crown lands not acquired via government purchase.

LAND HOLDINGS AND BUILDINGS

The values for most of the government's land holdings and buildings were arrived at by the Ontario Realty Corporation (ORC)—the government agency responsible for managing the government's real estate assets. ORC determined the values by launching a Book Value Project (BVP) in January 2002. The objective of the BVP was to estimate, using the best evidence available, both the original cost of government land and buildings and the dates of their acquisition (or, where applicable, the start and end dates of their construction). Four primary approaches were used to obtain the estimates of original cost:

- ORC data were compared with the values for land and buildings that the Municipal Property Assessment Corporation provided for municipal taxation purposes.
- ORC historical asset records were examined.
- Cost estimates for buildings were developed internally on the basis of staff knowledge of the buildings and a review and analysis of building characteristics such as size, location, age, and condition.
- Third-party appraisals were used.

Once the original cost of the land and buildings had been estimated, a valuation software program called the Book Value Calculator (BVC)—originally developed by the federal government to provide valuations of federally owned capital assets—was used to estimate current unamortized values for the buildings. The BVC did not need to calculate amortization for land, since land has an unlimited useful life and is therefore not subject to the deterioration or depreciation over time that amortization is intended to capture. For each building, the BVC calculated amortization by combining information on the government's historical rate of reinvestment in its buildings, the building's age, and its estimated useful life. With the BVC, ORC was thus able to arrive at opening book values for Ontario's buildings as at April 1, 2002 on both a gross basis (before accumulated amortization) and a net basis (after accumulated amortization).

TRANSPORTATION INFRASTRUCTURE

In January 2002, the Ministry of Finance (MOF) and the Ministry of Transportation (MTO) contracted with an outside consulting firm to help provide—for the province's highways, other roads, bridges, and associated assets such as road signage and lights—an estimate of the opening book values and amortization expense for the fiscal year ending March 31, 2003. Consistent with the phased-in approach discussed earlier in this section, MTO equipment was specifically excluded from the scope of this exercise. Rather than inventory individual items in the transportation infrastructure, as was done for land and buildings, MTO allocated its capital expenditures over the last 60 years into nine asset categories. Accumulated amortization to date was then estimated for each of these asset categories based on the estimated useful life attributable to that category.

RELIABILITY OF RESULTS

We acknowledge that, whenever estimates are used to determine financial statement amounts, it is possible that different estimation approaches could yield different results. However, our audit work on the estimation and valuation process used by the government and on the calculations of gross and net book values indicated that the values arrived at are reasonable. Over the years the accuracy of the province's capital asset information will steadily improve as all capital assets are recorded, the estimated opening book values are amortized, assets are gradually replaced, and the actual dollars spent on these assets are capitalized.

STRANDED DEBT OF THE ELECTRICITY SECTOR

Since our *1998 Annual Report,* we have raised issues relating to the restructuring of the electricity sector. Of particular concern to us has been the risk to Ontario's taxpayers with respect to the stranded debt of approximately $20 billion that resulted from the restructuring of the sector. This debt arose because, in a new competitive environment, the net asset values in Ontario Hydro's successor companies as at April 1, 1999 were $19.4 billion lower than the net assets previously recorded in Hydro's accounts. An agency of the province—the Ontario Electricity Financial Corporation (OEFC)—is responsible for managing the stranded debt.

Although this stranded debt had been recorded as a liability in the government's financial statements, it was separated from other liabilities on the province's statement of financial position. Similarly, while the electricity sector's net operating results were included in the province's annual surplus or deficit, they were disclosed separately from the results of other government operations on the province's statement of operations. This separation existed because the government plans to recover this debt from *electricity ratepayers* rather than *taxpayers.*

Developments in the current fiscal year indicated that there continued to be an increasing risk that part or all of the stranded debt would not be recovered from the electricity ratepayers and therefore would become a liability of the taxpayers of the province. For example, during the 2002/03 fiscal year, the stranded debt liability increased by another $98 million. In fact, the stranded debt has increased almost every year since April 1, 1999, when the electricity sector was restructured, as reflected in the following table:

Fiscal Year End Date	Stranded Debt ($ billion)
April 1, 1999	19.433
March 31, 2000	20.034
March 31, 2001	20.016
March 31, 2002	20.085
March 31, 2003	20.183

Prepared by Office of the Provincial Auditor

When the stranded debt was assumed by OEFC, the government established a long-term plan to retire the debt solely from dedicated revenue streams derived from the electricity sector. The government's long-term plan is updated annually to reflect current information and assumptions. As with any long-term plan, there is a high degree of uncertainty as to whether forecasted results will be achieved. The following examples illustrate the uncertainties inherent in electricity sector forecasting:

- The actual pre-tax profits of Ontario Power Generation (OPG) and Hydro One, which go towards reducing the stranded debt, were $870 million lower in the four fiscal years from 1999/2000 to 2002/03 than the amount forecasted in the initial government long-term plan. This decrease was primarily due to lower-than-expected OPG profits resulting from cost overruns from ongoing repairs on the Pickering nuclear facility. The Pickering cost overruns have also contributed to OPG having to defer, for another two years, principal payments due to OEFC amounting to $700 million.
- Effective May 1, 2002, the government fixed the electricity price paid by low-volume and designated consumers at 4.3 cents per kilowatt hour until at least 2006. For the 2002/03 fiscal year, this resulted in $665 million in additional costs. A price cap of this nature was not envisioned in the initial long-term plan.

This year, in part because of the increased concerns that the taxpayers of the province rather than electricity ratepayers will ultimately be responsible for repaying the stranded debt, the government has changed its treatment of the electricity sector for financial statement purposes. While the government still intends for the stranded debt to be recovered from electricity ratepayers, the financial statements for the 2002/03 fiscal year provide better disclosure of the activities of the government, in accordance with PSAB recommendations, by combining the electricity sector liabilities, including the stranded debt, with other government liabilities. We support this change.

CANADA HEALTH AND SOCIAL TRANSFER SUPPLEMENT

In its 2003 Budget, the federal government announced a $2.5 billion supplement to the Canada Health and Social Transfer (CHST) to assist provinces and territories in addressing health care needs. Ontario's share of this supplement was $967 million. The transfer was intended to provide funding over the three-year period from the 2003/04 fiscal year through the 2005/06 fiscal year. As with previous supplements, these federal funds were deposited into a trust account after the March 31, 2003 federal fiscal year end. As part of the trust agreement, a schedule was provided to provinces suggesting how the funds should be drawn down over the three-year period covered by the transfer. However, as occurred with past supplements, provinces and territories were free to draw down their portion of the $2.5 billion as they saw fit to meet their specific needs. The federal funds were deposited into the trust in June of 2003, and the Ontario government, as it had done with past supplements, withdrew its $967-million allocation in full shortly thereafter.

Historically, the Ontario government has recognized CHST transfers as provincial revenue over the periods identified in the federal government's drawdown schedule. This accounting policy is outlined in the notes to the government's financial statements and has been accepted by our Office. Although the government's 2003 Budget reflected the entire amount of the $967 million transfer as revenue in the 2002/03 fiscal year, the audited financial statements for 2002/03 appropriately recognized no revenue relating to this CHST transfer, since the federal government's schedule did not identify the 2002/03 period for drawdown. Based on the government's stated accounting policy, we anticipate the government will recognize $386 million of the total $967 million transfer as revenue in the 2003/04 fiscal year and the remaining $581 million as revenue over the following two fiscal years.

THE GOVERNMENT REPORTING ENTITY

The "government reporting entity" refers to, collectively, all of the organizations whose activities are included in the government's financial statements. One of the most critical aspects of reporting on a government's financial affairs is deciding which organizations—from among, for example, ministries, agencies, Crown-controlled corporations, boards, commissions, and organizations receiving transfer payments—should be included in the reporting entity. Inclusion in the reporting entity essentially means that an organization's operating results and its assets and liabilities are consolidated with or otherwise incorporated into the government's financial statements so that they form part of both the government's *annual* deficit or surplus and its *accumulated* deficit or surplus.

To date, the government has used a longstanding PSAB standard in assessing which organizations to include in its reporting entity. This standard recommends that an organization be included in the government's financial statements if: (1) it is accountable for the administration of its financial affairs and resources either to a minister of the government or directly to the Legislature and (2) it is owned or controlled by the government. In accordance with that standard, Ontario's financial statements for the fiscal year ended March 31, 2003 include, in addition to the activities of all government ministries, those of 27 of its most significant organizations, such as Ontario Power Generation Inc., Hydro One Inc., the Ontario Electricity Financial Corporation, the Ontario Lottery and Gaming Corporation, the Liquor Control Board of Ontario, GO Transit, and the Ontario Housing Corporation. The activities of less significant government organizations are accounted for through the accounts of the ministries responsible for them.

It is important to note that, under the current standard, the reporting entity does not include the activities of a number of significant public-sector or quasi-public-sector institutions that operate outside of the government ministry and agency structure. Most of these institutions, however, are primarily funded by the government and have considerable assets, liabilities (including long-term debt), revenues, and expenditures. Historically, the majority of these institutions form what has been called the "SUCH" sector, where SUCH stands for school boards, universities, colleges, and hospitals (including long-term-care facilities). Including such agencies in the government's financial statements would have a significant impact on the province's reported financial position and its annual operating results.

Ontario also does not include in its reporting entity a major special-purpose agency—the Ontario Innovation Trust (Trust). The Trust has received large sums of money from the government under a mandate to eventually pass on these funds via grants or transfers, often years later, to the actual intended recipients to support specific government programs. Although technically the Trust does not meet the current PSAB standard for inclusion in the reporting entity, our Office has raised accountability concerns with respect to the trust in each of the last four annual reports of the Provincial Auditor, including section 3.07 of Chapter Three of this year's report.

In August 2003, PSAB revised its reporting-entity standard. The new standard recommends that government financial statements include the activities of all organizations that are controlled by the government. The standard offers extensive guidance in assessing, using "control indicators," the degree to which control exists in any particular situation. The recommended implementation date for the standard is April 1, 2005.

Since raising reporting-entity concerns in last year's Annual Report, the staff at our Office have examined various sources of evidence—such as legislation, regulations, reporting arrangements, and ministry accountability documents pertaining to SUCH-sector entities—to assess whether the government will need to consider expanding its reporting entity under the new standard. It should be pointed out that applying PSAB's indicators of control is not an exact science and requires the exercise of professional judgment in determining the applicability of the control indicators. It has also often been necessary to assess the substance of the relationship between government and the organization in addition to its legal form. The following chart summarizes our assessment.

Status of SUCH-sector Organizations With Respect to PSAB Control Indicators

PSAB Control Indicator	Status of SUCH-sector Organization				
	School Boards	Universities	Colleges	Hospitals	Long-Term Care Facilities
Primary (i.e., More Persuasive) Indicators					
Govt. can unilaterally appoint/remove majority of members of the organization's governing body.			✓		
Govt. has ongoing access to the organization's assets, ability to direct ongoing use of assets, or has ongoing responsibility for losses.			✓		
Govt. holds majority of voting shares or "golden shares" giving power to govern organization's financial and operating policies.					
Govt. has unilateral power to dissolve the organization and thereby access its assets and become responsible for organization's obligations.	✓		✓	✓	
Other Indicators					
Govt. has power to provide significant input into appointment of members to the organization's governing body.			✓		
Govt. has power to appoint/remove CEO or other key personnel.	✓			✓	
Govt. can establish/amend the organization's mission/mandate.	✓		✓	✓	
Govt. has power to approve the organization's business plans or budgets and call for amendments.			✓	✓	✓
Govt. has power to establish borrowing/investment limits or restrict the organization's investments.	✓				✓
Govt. can restrict the revenue-generating capacity of the organization including its sources of revenue.	✓	✓	✓	✓	✓
Govt. can establish/amend the organization's managing policies including those relating to accounting, personnel, compensation, collective bargaining, and deployment of resources.	✓		✓	✓	✓

✓ = control indicator met

Prepared by the Office of the Provincial Auditor

Based on our assessment, the two strongest candidates for future consolidation into the government reporting entity are Ontario's colleges and school boards. Colleges in particular likely warrant inclusion, insofar as they meet the most control indicators, both primary and other. Although school boards meet only one of the primary indicators, they meet most of the other indicators, and the government has significantly increased its control over the delivery of Ontario's elementary and secondary school programs in recent years. For example, the provincial government, rather than local boards, now sets the local education tax rate. Moreover, such education taxes, raised from the local property tax base, are no longer provided directly to the local school boards for use in local schools. Rather, the Ontario government now redistributes such taxes throughout the province on a centrally determined basis. The government has further tightened control over school-board operations by establishing legislation and policies in such key areas as allowable average class sizes, hours of instruction, province-wide curricula, and student testing. The government demonstrated its control over the boards last year by directly taking over three of the province's largest boards. In addition, now that the province has adopted new PSAB accounting rules for tangible capital assets (see the previous section on "Accounting for Capital Assets"), including the financial statements of school boards in the financial statements of the province would allow the boards' tangible capital assets to be included as well as their net debt, which was incurred to construct these capital assets.

In conclusion, we recommend that the government complete its own assessment of colleges and school boards as soon as possible to determine if colleges and school boards should be consolidated into Ontario's financial statements in time for the April 1, 2005 PSAB-standard implementation date. We would also encourage the government to complete an assessment of Ontario's hospital sector and its long-term-care facilities to determine whether these organizations are sufficiently controlled by the government to warrant inclusion. Lastly, although we continue to have accountability concerns regarding the operations of the Ontario Innovation Trust, we continue to support the exclusion of both the Trust and Ontario's universities from the government's reporting entity, since these organizations do not, in our opinion, meet PSAB's control criteria.

INTEGRATED FINANCIAL INFORMATION SYSTEM

In the summer of 1995, the Minister of Finance established the Ontario Financial Review Commission (Commission) to review the government's financial practices. In its report issued November 1995, the Commission made 55 recommendations covering three main areas: planning, financial reporting, and Crown agencies. Among other things, the Commission noted that government ministries were using a number of different accounting and financial management systems, leading to financial information that was often inconsistent, delayed, or unnecessarily duplicated. It recommended that the government adopt one financial management and reporting system to replace the different, largely incompatible systems that were being used throughout the government. This concept of an enterprise-wide financial system was also critical to the implementation of other recommendations made by the Commission relating to the government's budget, its quarterly financial statements, and the future adoption of PSAB's standards on capital assets. Addressing these areas required information that could not readily be produced by the government's existing financial systems.

In late 1998, the Management Board of Cabinet approved the Ministry of Finance's business case for an integrated financial system, and gave approval to the Ministry to procure the hardware, software, and expert services necessary to develop and implement the system. The resulting system, known as the Integrated Financial Information System (IFIS), is currently being implemented in phases, or releases, throughout the Ontario public service. IFIS was first released to two pilot ministries in November 2002. Since then, the government has released IFIS in waves, or at specified intervals, to several other ministries. Wave 1 and 2 implementations occurred during the winter and spring of 2003, respectively, resulting in seven additional ministries adopting the IFIS system. Future plans call for IFIS to be implemented in approximately 70% of Ontario's ministries—responsible for just under one-half of the government's total expenditures—by March 31, 2004. The plan is for IFIS to be fully implemented across all Ontario ministries by the fall of 2004.

NEW PSAB INITIATIVES

PSAB serves the interests of the public and of the accounting profession by developing and promulgating standards designed to improve the financial and performance information reported by governments and other public sector entities. Improved information benefits decision-makers and other users.

From Ontario's perspective, some of the most significant issues PSAB is dealing with at the present time are the following:

- In October 2002, PSAB approved a Statement of Principles that proposed revisions to the existing standard on how government transfers of funds to other organizations or levels of government should be accounted for. One of the more difficult issues to be resolved deals with multi-year funding—that is, funding that is provided to organizations or other levels of government in advance of the years the funds will be spent to provide services to the public. The accounting issue relates to whether 100% of the funds transferred should be recognized as expenses in the year of the transfer or be recognized as expenses when the services are actually provided to the public. Fundamental to this debate is whether financial statements should have an "asset-and-liability" focus or a "revenue-and-expense" focus:
    - Proponents of the asset-and-liability focus believe that transfers covering multiple periods should be charged to operations in one period—the period in which the transfer is authorized, eligibility criteria have been met, and the amount is estimable.

Full recognition of the transfer is seen as appropriate because multi-year funding does not meet the definition of an asset, and recording a portion of it as such would distort a government's statement of financial position.

  - Proponents of the revenue-and-expense focus believe that expensing multi-year funding in one year results in a distortion of the operating statement and therefore of the reported deficit or surplus of the transferring government over the periods funded. Their view is that multi-year funding should be charged to operations only when the funds are actually spent to provide services to the public, with the funds provided in advance of current-year needs being treated as prepaid assets.

- In 2002, PSAB also approved a Statement of Principles related to three financial-statement components: liabilities, contingent liabilities, and commitments. The Statement proposed changes to the definitions of each of these components. For example, the liability definition was broadened to include obligations that result from transactions and events beyond those related to agreements, contracts, and existing legislation. Issues addressed in the Statement included: whether legislation had to be in force prior to the accounting date before a liability could be recognized; the accrual of a contingent liability when the future confirming event is likely to happen; and limiting the disclosure of commitments to a government's contractual obligations.

- In July 2003, PSAB issued a draft guideline on funds and reserves that provides guidance on presenting information related to stabilization funds and financial reserves in government financial statements.

- In July 2003, PSAB issued a public exposure draft for a proposed Statement of Recommended Practices on Financial Statement Discussion and Analysis (FSD&A). The draft provides a general framework for the development of FSD&A information and provides guidance on the nature and extent of supplementary information that should be provided to financial statement users. This supplementary information would include narrative explanations and graphic illustrations of key events during the reporting period, along with explanations and illustrations of variances and trends.

- In August 2003, PSAB issued a Statement of Principles for its Generally Accepted Accounting Principles (GAAP). This Statement is the first step in the development of a proposed new GAAP section in the Public Sector Accounting Handbook (Handbook). The section would revise existing material in the Handbook relating to what other accounting guidance could be used when a particular accounting issue is not addressed within the Handbook itself.

- In April 2003, based primarily on input from the government community, PSAB approved four new projects, the following three of which have possible implications for Ontario's financial reporting:

  - *Financial Instruments*—This project was begun to deal with the growth in the availability and use by governments of sophisticated financial instruments such as foreign currency and interest rate swap and option contracts.

- *Performance Reporting*—This project is designed to develop a set of overarching principles that will guide the future development of performance reporting, including a framework for identifying specific performance indicators.
- *Revenues*—This project will define government revenue, consider the appropriateness for governments of the general principle of revenue recognition embodied in existing standards, and develop specific recognition criteria for government exchange and non-exchange transactions.

OTHER MATTERS

The Provincial Auditor is required under section 12 of the *Audit Act* to report on any Special Warrants and Treasury Board Orders issued during the year. In addition, under section 91 of the *Legislative Assembly Act*, the Provincial Auditor is required to report on any transfers of money between items within the same vote in the Estimates of the Office of the Legislative Assembly.

LEGISLATIVE APPROVAL OF GOVERNMENT EXPENDITURES

The government tables detailed Expenditure Estimates, outlining each ministry's spending proposals on a program-by-program basis, shortly after presenting its Budget. The Standing Committee on Estimates reviews selected ministry Estimates and presents a report on them to the Legislature. The Estimates of those ministries that are not selected for review are deemed to be passed by the Committee and are reported as such to the Legislature. Orders for Concurrence for each of the Estimates reported on by the Committee are debated in the Legislature for a maximum of three hours and then voted on.

Once the Orders for Concurrence are approved, the Legislature provides the government with legal spending authority by approving a Supply Act, which stipulates the amounts that can be spent according to the ministry programs as set out in the Estimates. Once the Supply Act is approved, the individual program expenditures are considered to be Voted Appropriations. The *Supply Act, 2002* pertaining to the fiscal year ended March 31, 2003, received Royal Assent on December 13, 2002.

Typically, prior to the passage of the Supply Act, the Legislature authorizes payments by means of motions for interim supply. For the 2002/03 fiscal year, the time periods covered by the motions for interim supply and the dates that the motions were agreed to by the Legislature were as follows:

- November 1, 2001 to April 30, 2002—passed October 22, 2001;
- May 1, 2002 to October 31, 2002—passed June 26, 2002 (see "Special Warrants"); and
- November 1, 2002 to April 30, 2003—passed October 22, 2002.

SPECIAL WARRANTS

If motions for interim supply cannot be approved because the Legislature is not in session, section 7 of the *Treasury Board Act, 1991* allows the issue of Special Warrants authorizing the expenditure of money for which there is no appropriation by the Legislature. Special Warrants are authorized by Orders-in-Council approved by the Lieutenant Governor on the recommendation of the government.

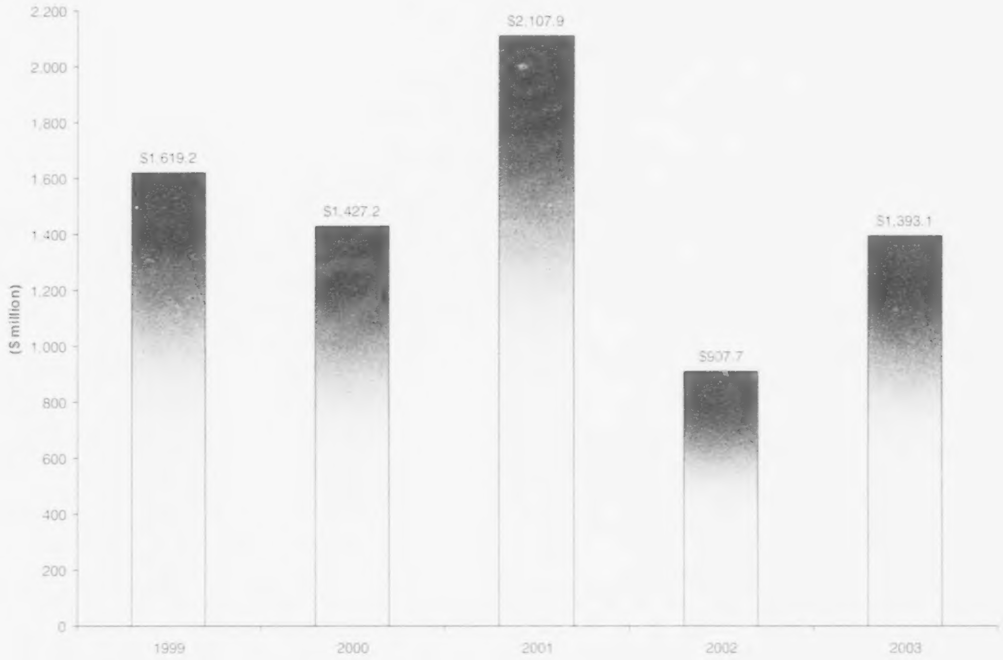
One Special Warrant was issued for the fiscal year ended March 31, 2003. The Special Warrant was approved by an Order-in-Council, dated April 24, 2002, totaling $19,630,031,900. The Special Warrant was required because the October 22, 2001 motion for interim supply covered the period to April 30, 2002 only. Therefore, a Special Warrant was needed to authorize expenditures after that date until a new motion of interim supply could be passed (the new motion was passed on June 26, 2002). This Special Warrant authorized payments for both the general and necessary expenditures of the government and the general and necessary expenditures of the Office of the Chief Election Officer, the Provincial Auditor, the Legislative Assembly, and Ombudsman Ontario for a period of three consecutive months, commencing on May 1, 2002.

The total expenditures approved by the *Supply Act, 2002* excluded the amounts authorized by the Special Warrant.

TREASURY BOARD ORDERS

Section 8 of the *Treasury Board Act, 1991* allows the Treasury Board to make an order authorizing payments to supplement the amount of any Voted Appropriation that is insufficient to carry out the purpose for which it was made, provided the amount of the increase is offset by a corresponding reduction of expenditures from other Voted Appropriations not fully spent in the fiscal year. The order may be made at any time before the first day of May following the end of the fiscal year in which the supplemented appropriation was made.

The following chart is a summary of the total value of Treasury Board Orders issued for the past five fiscal years:



Treasury Board Orders for the 2002/03 fiscal year summarized by month of issue are as follows:

Month of Issue	Number	Authorized $
May 2002–February 2003	30	640,808,400
March 2003	17	695,002,300
April 2003	12	57,308,300
Total	**59**	**1,393,119,000**

In accordance with a Standing Order of the Legislative Assembly, the preceding Treasury Board Orders are to be printed in *The Ontario Gazette* in the fall of 2003, together with explanatory information. A detailed listing of 2002/03 Treasury Board Orders, showing the amounts authorized and expended, is included as Exhibit Three of this report.

TRANSFERS AUTHORIZED BY THE BOARD OF INTERNAL ECONOMY

When the Board of Internal Economy authorizes the transfer of money from one item of the Estimates of the Office of the Assembly to another item within the same vote, section 91 of the *Legislative Assembly Act* requires the Provincial Auditor to make special mention of the transfer(s) in the Annual Report.

With respect to the 2002/03 Estimates, the following transfers were made:

- within Vote 201:

From:	Item 6	Sergeant at Arms and Precinct Properties	$	461,300
To:	Item 2	Office of the Clerk		330,800
	Item 7	Legislative Information Systems		126,400
	Item 12	Lieutenant Governor's Suite		4,100

- within Vote 202:

From:	Item 3	Office of the Integrity Commissioner	$	63,400
To:	Item 1	Environmental Commissioner		9,100
	Item 2	Office of the Information and Privacy Commissioner		54,300

UNCOLLECTIBLE ACCOUNTS

Under section 5 of the *Financial Administration Act,* the Lieutenant Governor in Council, on the recommendation of the Minister of Finance, may authorize an Order-in-Council to delete from the accounts any amount due to the Crown which is deemed to be uncollectible. The losses deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

In the 2002/03 fiscal year, receivables of $84.8 million due to the Crown from individuals and non-government organizations were written off (in 2001/02 the comparable amount was $126.5 million). Volume 2 of the *2002/03 Public Accounts of Ontario* provides a listing of these write-offs in total by ministry or Crown agency.

Under the accounting policies followed in the audited financial statements of the province, a provision for doubtful accounts is recorded against the accounts receivable balances. Accordingly, most of the $84.8 million in write-offs had already been provided for in the audited financial statements. However, the actual deletion from the accounts required Order-in-Council approval.

The major portion of the write-offs related to the following:

- $35.9 million for uncollectible taxes relating to retail sales tax receivables;
- $21.5 million for uncollectible taxes relating to corporation tax receivables;
- $7.8 million for uncollectible assessments under the Ontario Disability Support Program;
- $4.9 million for uncollectible assessments under the student support programs; and
- $3.5 million for uncollectable taxes relating to employer health tax receivables.

CHAPTER SIX

The Office of the Provincial Auditor

MISSION STATEMENT

Our mission is to report to the Legislative Assembly objective information and recommendations resulting from our independent audits of the government's programs and its Crown agencies and corporations. In doing so, the Office assists the Assembly in holding the government and its administrators accountable for the quality of the administration's stewardship of public funds and for the achievement of value for money in government operations.

INDEPENDENCE

The Provincial Auditor is appointed as an officer of the Legislative Assembly by the Lieutenant Governor in Council on the address of the Assembly. This is done after consultation with the Chair of the Standing Committee on Public Accounts (for more information on the Committee, see Chapter Seven). The Provincial Auditor and staff of the Office are independent of the government and its administration. This independence is a safeguard that enables the Office to fulfill its auditing and reporting responsibilities objectively and fairly.

The Board of Internal Economy—an all-party legislative committee that is independent of the government's administrative process—reviews and approves our budget, which is subsequently laid before the Legislative Assembly. As required by the *Audit Act*, the Office's expenditures relating to the 2002/03 fiscal year have been audited by a firm of chartered accountants and are presented at the end of this chapter. The audited statement of expenditure is submitted annually to the Board and subsequently tabled in the Legislative Assembly.

AUDIT RESPONSIBILITIES

We audit the financial statements of the province and the accounts of many agencies of the Crown, and we audit the administration of government programs and activities, as carried out by ministries and agencies of the Crown under government policies and legislation. Our responsibilities are set out in the *Audit Act* (see Exhibit Four).

The Office reports on its audits in an Annual Report to the Legislative Assembly. In addition, the Office may make a special report to the Assembly at any time on any matter that in the opinion of the Provincial Auditor should not be deferred until the Annual Report. We also assist and advise the Standing Committee on Public Accounts in its review of the Annual Report of the Provincial Auditor and of the Public Accounts of the province.

It should be noted that our audit activities include the examination of the application of the government's administrative policies and the actual administration of the government's policy decisions as carried out by ministry or agency management. The government is held accountable for policy matters by the Legislative Assembly, which continually monitors and challenges government policies and programs through questions during legislative sessions and through reviews of legislation and expenditure estimates.

We are entitled to have access to all relevant information and records necessary to the performance of our duties under the *Audit Act*. Out of respect for the principle of Cabinet privilege, the Office does not seek access to the deliberations of Cabinet. However, the Office can access all other information contained in Cabinet submissions that we deem necessary to fulfill our auditing and reporting responsibilities under the *Audit Act*.

ACCOUNTS OF THE PROVINCE AND VALUE FOR MONEY

The Provincial Auditor, under subsection 9(1) of the *Audit Act*, is required to audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund whether held in trust or otherwise. To this end, the Office carries out an annual attest audit to enable the Provincial Auditor to express an opinion on the province's financial statements. As well, the Office carries out cyclical value-for-money audits in accordance with subsection 12(2) of the *Audit Act*.

AGENCIES OF THE CROWN AND CROWN-CONTROLLED CORPORATIONS

The Provincial Auditor, under subsection 9(2) of the *Audit Act*, is required to audit those agencies of the Crown that are not audited by another auditor. Exhibit Two, Part (I), lists the agencies that were audited during the 2002/03 audit year. Public accounting firms are currently contracted by the Office to audit the financial statements of several of these agencies on its behalf.

Exhibit Two, Part (II) and Exhibit Three list the agencies of the Crown and Crown-controlled corporations, respectively, that were audited by public accounting firms during the 2002/03 audit year. Subsection 9(2) of the *Audit Act* requires public accounting firms that are appointed auditors of certain agencies of the Crown to perform their audits under the direction of, and to report to, the Provincial Auditor. Under subsection 9(3) of the Act, public accounting firms auditing Crown-controlled corporations are required to deliver to the Provincial Auditor a copy of the audited financial statements of the corporation and a copy of their report of their findings and recommendations to management (management letter).

ADDITIONAL RESPONSIBILITIES

Under section 16 of the *Audit Act*, the Provincial Auditor may, by resolution of the Standing Committee on Public Accounts, be required to examine and report on any matter respecting the Public Accounts.

Section 17 of the Act requires the Provincial Auditor to undertake special assignments requested by the Assembly, the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister of the Crown. However, these special assignments are not to take precedence over the Provincial Auditor's other duties. The Provincial Auditor can decline an assignment referred by a minister if, in the opinion of the Provincial Auditor, it conflicts with other duties.

AUDIT ACTIVITIES

TYPES OF AUDITS

Value-for-money, attest, and compliance audits are the three main types of audits carried out by the Office. The Office generally conducts compliance audit work as a component of its value-for-money and attest audits. In addition, inspection audits of selected grant-recipient organizations may be conducted under section 13 of the *Audit Act*. The following are brief descriptions of each of these audit types.

Value-for-Money Audits

Subclauses 12(2)(f)(iv) and (v) of the *Audit Act* require the Provincial Auditor to report on any cases observed where money was spent without due regard for economy and efficiency, or where appropriate procedures were not in place to measure and report on the effectiveness of programs. This value-for-money mandate is exercised through the auditing of various ministry and Crown-agency programs and activities each year. We have summarized in Chapter Three the conclusions, observations, and recommendations arising from the value-for-money work we performed between October 2002 and September 2003.

It is not part of the Office's mandate to measure, evaluate, or report on the effectiveness of programs or to develop performance measures or standards. These functions are the responsibility of ministry and/or agency management. The Office is responsible for reporting instances noted where the ministry or agency has not carried out these functions satisfactorily. Our value-for-money work deals with the administration of programs by management, including major information systems.

We plan, perform, and report our value-for-money work in accordance with the professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants. These standards require that we employ rigorous processes to maintain the quality, integrity, and value of our work for our client, the Legislative Assembly. They also require that we clearly explain the nature and extent of the assurance provided as a result of our work. Some of these processes and the degree of assurance they enable us to provide are described below.

SELECTION OF PROGRAMS AND ACTIVITIES FOR AUDIT

Major ministry and agency programs and activities are audited at approximately five-year intervals. Various factors are considered in selecting programs and activities for audit each year. These factors include: the results of previous audits; the total revenues or expenditures at risk; the impact of the program or activity on the public; the inherent risk due to the complexity and diversity of operations; the significance of possible issues that may be identified by an audit; and the costs of performing the audit in relation to the perceived benefits. Possible issues are identified primarily through a preliminary survey of the program or agency.

We also consider the work completed or planned by ministry and agency internal auditors. The relevance, timeliness, and breadth of scope of the work done by internal auditors can have a major impact on the timing, frequency, and extent of our audits. By having access to internal audit work plans, working papers, and reports and by relying, to the extent possible, on internal audit activities, the Office is able to avoid duplication of effort.

OBJECTIVES AND ASSURANCE LEVELS

The objective of our value-for-money work is to meet the requirements of subclauses 12(2)(f)(iv) and (v) of the *Audit Act* by identifying and reporting significant value-for-money issues. We also include in our reports recommendations for improving controls, obtaining better value for money, and achieving legislated objectives. Management responses to our recommendations are reproduced in our reports.

The specific objective(s) for each audit or review conducted are clearly stated in the Objective(s) and Scope section of each audit report—that is, each value-for-money section of Chapter Three. Our work is designed to allow us to conclude on our stated objective(s).

In almost all cases, our work is planned and performed to provide an audit level of assurance. An audit level of assurance is obtained by: interviewing management and analyzing the information they provide; examining and testing systems, procedures, and transactions; confirming facts with independent sources; and, where necessary, obtaining expert assistance and advice in highly technical areas.

An audit level of assurance refers to the highest reasonable level of assurance the Office can provide concerning the subject matter. Absolute assurance that all significant matters have been identified is not attainable for various reasons, including: the use of testing; the inherent limitations of control; the fact that much of the evidence available is persuasive rather than conclusive in nature; and the need to exercise professional judgment.

Infrequently, for reasons such as the nature of the program or activity, limitations in the *Audit Act*, or the prohibitive cost of providing a high level of assurance, the Office will perform a review rather than an audit. A review provides a moderate level of assurance because it consists primarily of inquiries and discussions with management; analyses of information they provide; and only limited examination and testing of systems, procedures, and transactions. For example, our work reported in Chapter Four of this report—Follow-up of Recommendations in the *2001 Annual Report*—falls into this review category.

CRITERIA

In accordance with professional standards for assurance engagements, work is planned and performed to provide a conclusion on the objective(s) set for the work. A conclusion is reached and observations and recommendations made by evaluating the administration of a program or activity against suitable criteria. Suitable criteria are identified at the planning stage of our audit or review by performing extensive research of sources, such as: recognized bodies of experts; applicable laws, regulations, and other authorities; other bodies or jurisdictions delivering similar programs and services; management's own policies and procedures; and applicable criteria successfully applied in other audits or reviews.

To further ensure their suitability, the criteria being applied are fully discussed with and agreed to by senior management responsible for the program or activity at the planning stage of the audit or review.

COMMUNICATION WITH SENIOR MINISTRY OR AGENCY MANAGEMENT

To help ensure the factual accuracy of our observations and conclusions, staff from our Office maintain ongoing communication with senior management throughout the audit or review. Before beginning the work, our staff meet with them to discuss the objectives and criteria and the focus of our work in general terms. During the audit or review, our staff meet with management to review progress and ensure open lines of communication. At the conclusion of on-site work, management is briefed on the preliminary results of the work. A draft report is then prepared and discussed with them. Management provides written responses to our recommendations and these are discussed and incorporated into the final draft report. The Provincial Auditor discusses and finalizes the draft report, on which the Annual Report will be based, with the deputy minister or agency head well in advance of the publication of the Annual Report.

Attest Audits

Attest (financial) audits are designed to permit the expression of the auditor's opinion on a set of financial statements in accordance with generally accepted auditing standards. The opinion states whether the operations and financial position of the entity as reflected in their financial statements have been fairly presented in compliance with appropriate accounting policies. The Office conducts attest audits of the financial statements of the province and of numerous Crown agencies on an annual basis.

Compliance Audits

Subsection 12(2) of the *Audit Act* also requires the Provincial Auditor to report observed instances noted where:

- accounts were not properly kept or public money was not fully accounted for;
- essential records were not maintained or the rules and procedures applied were not sufficient to safeguard and control public property or to effectively check the assessment, collection, and proper allocation of revenue or to ensure that expenditures were made only as authorized; or
- money was expended other than for the purposes for which it was appropriated.

Accordingly, as part of our value-for-money work, we:

- identify provisions in legislation and authorities that govern the programs or agencies being examined or that the management of those programs or agencies is responsible for administering; and
- perform such tests and procedures as we deem necessary to obtain reasonable assurance that management has complied with legislation and authorities in all significant respects.

Inspection Audits of Grant-recipient Organizations

Although grants to organizations such as hospitals, universities, community colleges, school boards, and thousands of smaller organizations amount to approximately 50% of total government expenditures, our Office can conduct only limited-scope inspection audits on them. Inspection audits are defined in the *Audit Act* as an examination of accounting records. Although value-for-money observations may arise as a by-product of inspection audits, the audits are not value-for-money oriented because only accounting records can be examined in inspection audits.

The Office may, where circumstances warrant the extension of a ministry or agency audit, conduct inspection audits of grant recipients. In the past, the Office has carried out inspection audits of major recipients of grants, specifically community colleges, universities, hospitals, and school boards. However, in recent years, the Office has deferred major inspection-audit activity pending consideration of a proposal to amend the *Audit Act* to permit the Office to access all records and information necessary to perform full-scope audits, including value-for-money, of grant-recipient organizations.

On April 19, 2001, the government announced in the Speech from the Throne, under the heading of "Holding the Broad Public Sector Accountable to Taxpayers," that it would be introducing sweeping reforms to ensure that all public-sector institutions are accountable to the citizens of Ontario. Included in the planned reforms announced in the Throne Speech was a commitment to make amendments to the *Audit Act* that would permit the Provincial Auditor to assess the extent to which institutions funded by Ontario taxpayers use that money prudently, effectively, and as intended. However, no action was taken by the government on this commitment. Further details and background on the subject of amendments to the *Audit Act* are provided in Chapter Two, in the section entitled "Proposed Amendments to the *Audit Act*."

Payments are also made to individuals under a variety of programs, such as the Ontario Health Insurance Plan or the Ontario Disability Support program. Such individual recipients of government funds are not, and should not be, subject to direct audit by the Provincial Auditor. For these kinds of programs, our audits focus on the ministries' procedures to ensure that only eligible recipients are being paid the correct amount.

REPORTING ACTIVITIES

VALUE-FOR-MONEY AUDITS

As each audit or review is completed, the Office prepares a preliminary draft report for discussion and factual clearance. The preliminary draft report is discussed with senior ministry or agency officials and revised, as necessary, to reflect the results of the discussion. The Provincial Auditor finalizes the draft report with the deputy minister or agency head (chair) well in advance of the publication of the Annual Report. Following clearance of the preliminary draft report and the ministry or agency response, a final draft report is prepared and issued to the deputy minister or agency head. These final draft audit reports form a significant component of our Annual Report to the Legislative Assembly.

AGENCY ATTEST AUDITS

With respect to reporting on attest audits of agencies, agency legislation normally stipulates that the Provincial Auditor's reporting responsibilities are to the agency's board and the minister(s) responsible. Also, we provide copies of the audit opinions and of the related agency financial statements to the deputy minister of the associated ministry, as well as to the Secretary of the Management Board of Cabinet.

In instances where matters that require improvements by management have been noted during the course of an agency attest audit, a draft management letter is prepared, discussed with senior management, and revised as necessary to reflect the results of the discussion. Following clearance of the draft management letter and the response of the agency's senior management, a final management letter is prepared and, if deemed necessary, issued to the agency head. Depending on the significance of the content of the management letter, a copy of it may also be forwarded to the minister and deputy minister of the associated ministry and to the Secretary of the Management Board of Cabinet. Matters of significance contained in the management letter may also be included in the Provincial Auditor's Annual Report to the Legislative Assembly.

CONFIDENTIALITY OF WORKING PAPERS

In the course of our reporting activities, we prepare draft audit reports and management letters that are considered to be an integral part of our audit working papers. It should be noted that these working papers, according to section 19 of the *Audit Act*, are not required to be laid before the Assembly or any of its committees. As well, because our Office is exempt from the *Freedom of Information and Protection of Privacy Act*, our reports and audit working papers, which include all information obtained from ministries and agencies during the course of an audit, may not be accessed from our Office, thus further ensuring confidentiality.

SPECIAL ASSIGNMENTS

Under sections 16 and 17 of the *Audit Act*, the Provincial Auditor has additional reporting responsibilities relating to special assignments for the Legislative Assembly, the Standing Committee on Public Accounts, or a minister of the Crown. At the conclusion of such work, the Provincial Auditor normally reports to the initiating authority of the assignment.

ANNUAL REPORT

The reporting requirements for the Annual Report, as specified in subsection 12(2) of the *Audit Act*, are organized in the following way:

Chapter One of the Annual Report provides an overview of the Provincial Auditor's findings for this year's value-for-money audit activities as well as summaries of the value-for-money audits and reviews that were conducted.

Chapter Two contains observations on the subject of improving public-sector accountability.

Chapter Three contains the reports resulting from our value-for-money audits of ministries and agencies conducted during the year.

Chapter Four contains the results of our follow-up on the action taken by each ministry and agency on the recommendations we made to them two years ago. We conduct this follow-up to encourage timely attention by each ministry and agency to our observations and recommendations. Accordingly, a detailed account of the current status of recommendations made in the *2001 Annual Report* is provided in this chapter.

Chapter Five is devoted to the Provincial Auditor's comments on the audit of the Public Accounts of the province. The reporting requirements under clauses 12(2)(d) and (e) of the *Audit Act* are also met in this chapter.

In Chapter Six, we report on the activities of the Office of the Provincial Auditor and reproduce the Office's externally audited statement of expenditure for the year ended March 31, 2003.

Chapter Seven provides information on the composition and activities of the Standing Committee on Public Accounts.

OFFICE ORGANIZATION AND PERSONNEL

The Office is organized into portfolio teams—a framework that attempts to align related audit entities and to foster expertise in the various areas of audit activity. The portfolios, which are loosely based on the government's own ministry organization, are each headed by a Director who oversees and is responsible for the ministry and agency audits within the assigned portfolio. Assisting the portfolio Directors and rounding out the teams are a number of audit Managers and various other audit staff.

The Provincial Auditor, the Assistant Provincial Auditor, and the portfolio Directors make up the Office's Executive Steering Committee (ESC). The executive management of the Office as at September 30, 2003 is outlined in the following table.

Executive Management of the Office of the Provincial Auditor, 2003

Erik Peters	Provincial Auditor (retired effective September 30, 2003)
Jim McCarter	Assistant Provincial Auditor
Director	**Portfolio**
Paul Amodeo	Public Accounts; Finance; Information Technology; and Accounting Research
Walter Bordne	Community, Family and Children's Services; and Revenue
Andrew Cheung	Justice and Regulatory
Gerard Fitzmaurice	Economic Development
John McDowell	Crown Agencies, Corporations, Boards, and Commissions; and Transportation and Energy
Nick Mishchenko	Health and Long-Term Care; and Management Board Secretariat
Gary Peall	Education; Training, Colleges and Universities; Culture; Municipal Affairs and Housing; and Professional Practices

Note: Annemarie Wiebe, the Manager of Human Resources, regularly attends meetings of the ESC to provide advice on matters related to human resources.

CODE OF PROFESSIONAL CONDUCT

The Office has a Code of Professional Conduct to encourage staff to maintain high professional standards and ensure a professional work environment. It is intended to be a general statement of philosophy, principles, and rules regarding conduct for employees of the Office, who have a duty to conduct themselves in a professional manner and to strive to achieve the highest standards of behaviour, competence, and integrity in their work. The Code provides the reasoning for these expectations and further describes the Office's responsibilities to the Legislative Assembly, the public, and our audit entities. The Code also provides guidance on disclosure requirements and the steps to be taken to avoid conflict-of-interest situations.

CANADIAN COUNCIL OF LEGISLATIVE AUDITORS

The 31st annual meeting of the Canadian Council of Legislative Auditors (CCOLA) was held in Winnipeg, Manitoba, from September 14 to 16, 2003. This annual gathering, bringing together legislative auditors from the federal government and the provinces, provides a useful forum for sharing ideas and exchanging information important to the work of the legislative auditing community.

The Provincial Auditor and the Assistant Provincial Auditor attended this year's meeting, which covered such topics as:

- Reporting Principles and Parliamentary Effectiveness
- Performance Reporting
- Reporting on Controls

ACKNOWLEDGMENT

AUDITEES AND STAFF

The Provincial Auditor expresses sincere appreciation to those officials of ministries, agencies, and other entities for their co-operation in providing his staff with the information and explanations required during the performance of the Office's audit work on a timely basis. However, there were two cases where we encountered difficulties in accessing information. In accordance with clause 12(2)(a) of the *Audit Act*, these cases are reported in Chapter Three, sections 3.01 and 3.07, and are summarized in Chapter One in the section entitled "Access to Information."

The Provincial Auditor extends a special appreciation to the staff of the Office for their dedication, competence, and the professional manner in which they have carried out their duties.

OFFICE EXPENDITURE

The following is the 2003 audited Statement of Expenditure for the Office.

Office of the Provincial Auditor of Ontario
Statement of Expenditure
Year Ended March 31, 2003

	2003		2002	
	Actual ($ 000)	Estimates ($ 000)	Actual ($ 000)	Estimates ($ 000)
Salaries and wages	5,364	5,822	4,721	5,822
Employee benefits (note 3)	880	1,135	716	878
Transportation and communication	170	171	212	170
Services	1,707	1,828	1,749	1,639
Supplies and equipment	298	148	315	124
Transfer payment:				
CCAF–FCVI Inc.	50	50	50	50
	8,469	**9,154**	**7,763**	**8,683**
The *Audit Act* (statutory) (note 4)	209	209	306	294
	8,678	**9,363**	**8,069**	**8,977**

Notes to Statement of Expenditure:

1. **Accounting Policy**

   The statement of expenditure has been prepared using the modified cash basis of accounting, which allows for an additional 30 days to pay for goods and services received during the fiscal year just ended. This basis of accounting is consistent with that used in the preparation of the Estimates and the prior year actual expenditures.

2. **Estimates**

   The Estimates shown on the statement of expenditure reflect the approved Expenditure Estimates of the Province of Ontario for the respective years.

3. **Employee Benefits**

   The Office provides pension benefits for eligible employees through participation in the Public Service Pension Fund (PSPF) and the Deputy Ministers' Supplementary Benefit Plan, multi-employer pension plans established by the Province of Ontario. The plans are accounted for as defined contribution pension plans, as the Office has insufficient information to apply defined benefit plan accounting to these pension plans. Accordingly, the Office's cash contributions to these plans for the year of $376,676 (2002—$190,869) reflect the Office's pension expenditures and are included in employee benefits.

   The cost of post-retirement non-pension benefits is paid by Management Board Secretariat and therefore is not included in this statement.

4. **Statutory Appropriations**

   Under section 5 of the *Audit Act*, the Provincial Auditor's remuneration for the fiscal year is considered a statutory item.

   The actual 2002 expenditure includes, under section 23 of the *Audit Act*, specialist assistance of $97,370 incurred in connection with the Office's examination of the Bruce Nuclear leasing agreement requested by the Standing Committee on Public Accounts and is considered a statutory item.

5. ***Public Sector Salary Disclosure Act, 1996***
This Act requires disclosure of Ontario public-sector employees paid an annual salary in excess of $100,000 in calendar year 2002. For the Office, this disclosure is as follows:

		Salary Paid $	Taxable Benefits $
Peters, Erik	Provincial Auditor	209,490	8,826
McCarter, James	Assistant Provincial Auditor	149,445	290
Amodeo, Paul	Director	100,764	210
Bordne, Walter	Director	110,957	224
Cheung, Andrew	Director	110,957	224
Fitzmaurice, Gerard	Director	113,545	224
McDowell, John	Director	110,957	224
Mishchenko, Nicholas	Director	110,957	224
Peall, Gary	Director	110,957	224

AUDITORS' REPORT TO THE BOARD OF INTERNAL ECONOMY OF THE LEGISLATIVE ASSEMBLY OF ONTARIO

We have audited the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 2003. This statement is the responsibility of the management of the Office of the Provincial Auditor. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used as well as evaluating the overall statement presentation.

In our opinion, this statement presents fairly, in all material respects, the expenditures of the Office of the Provincial Auditor for the year ended March 31, 2003 in accordance with the accounting policy referred to in note 1 to the statement.

Toronto, Canada
September 4, 2003

ALLEN & MILES LLP
CHARTERED ACCOUNTANTS

PROVINCIAL AUDITOR'S RETIREMENT

On September 30, 2003, Erik Peters, FCA, retired from the Office after serving almost 11 years as Provincial Auditor.

Erik Peters served during a very important transition period in government accounting. He was instrumental in bringing about significant improvements in the province's accounting and financial-reporting practices. Such changes included: the government's move from a cash basis of accounting to accrual accounting; the government's consistent use of new accounting rules in preparing the Budget, the Estimates, and the financial statements; and the government's more inclusive financial reporting of all its activities. During his tenure, Mr. Peters placed an equally high priority on accountability and the Office's value-for-money mandate.

Mr. Peters was the year 2000 recipient of the Institute of Chartered Accountants of Ontario's Award of Outstanding Merit for conspicuous and sustained service to the profession and the broader community.

CHAPTER SEVEN

The Standing Committee on Public Accounts

APPOINTMENT AND COMPOSITION OF THE COMMITTEE

The Standing Orders of the Legislature provide for the appointment of an all-party Standing Committee on Public Accounts. The Committee is appointed for the duration of the Parliament (that is, the period from the opening of the first session immediately following a general election to the end of a government's term and the calling of another election).

The membership of the Committee reflects proportionately the representation of parties in the Legislature. All members are entitled to vote on motions with the exception of the Chair, whose vote is restricted to the breaking of a tie.

In accordance with the Standing Orders, a Standing Committee on Public Accounts was appointed on November 1, 1999, soon after the commencement of the First Session of the Thirty-seventh Parliament. The activities of the Committee effectively came to an end with the dissolution of the House on September 2, 2003. The membership of the Committee at dissolution was as follows:

John Gerretsen, Chair, Liberal
Bruce Crozier, Vice-chair, Liberal
Garfield Dunlop, Progressive Conservative
Raminder Gill, Progressive Conservative
John Hastings, Progressive Conservative
Shelley Martel, New Democrat
Al McDonald, Progressive Conservative
Richard Patten, Liberal

ROLE OF THE COMMITTEE

The Committee examines, assesses, and reports to the Legislature on a number of issues, including: the economy and efficiency of government operations; the effectiveness of programs in achieving their objectives; controls over assets, expenditures, and the assessment and collection of revenues; and the reliability and appropriateness of information in the Public Accounts.

In fulfilling this role, pursuant to its terms of reference in the Standing Orders of the Assembly, the Committee reviews the Provincial Auditor's Annual Report and the Public Accounts and reports to the Legislature its observations, opinions, and recommendations. Under the Standing Orders, the documents are deemed to have been permanently referred to the Committee as they become available.

PROVINCIAL AUDITOR'S ROLE WITH THE COMMITTEE

In accordance with section 16 of the *Audit Act*, the Provincial Auditor and senior staff attend committee meetings at which the Committee reviews the Provincial Auditor's Annual Report and the Public Accounts and assist the Committee in planning its agenda.

COMMITTEE PROCEDURES AND OPERATIONS

GENERAL

The Committee meets on Thursday mornings when the Legislature is sitting. At times, the Committee also meets during the summer and winter when the Legislature is not sitting. All meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports. All public Committee proceedings are recorded in Hansard (the official verbatim report of the debates in the House, speeches, other proceedings in the Legislature, and all open-session sittings of standing and select committees).

The Committee selects matters from the Provincial Auditor's Annual Report and the Public Accounts for hearings. The Committee then requests senior ministry and agency officials to appear and respond to questions at these hearings. Since the Committee is concerned with administrative rather than policy matters, ministers rarely attend.

Once hearings are completed, the Committee then reports its comments and recommendations to the Legislature. Committee procedures include the following:

- in-depth briefings and preparation;
- when practical, the inclusion of ministry responses in committee reports; and
- follow-up of committee recommendations.

The Committee also follows up in writing with those ministries and Crown agencies not selected for detailed review by the Committee regarding their plans and timetables for addressing the concerns raised in the Provincial Auditor's reports. This process enables each auditee to update the Committee on activities undertaken since the completion of the audit, such as any initiatives taken to address the Provincial Auditor's recommendations.

MEETINGS HELD

From October 2002 to September 2003, the Committee met regularly on Thursday mornings when the Legislature was sitting and also met during the winter recess to consider the reports of the Provincial Auditor. The Committee's work during this period relating to the work of this Office included:

- considering Bill 5, Audit Statute Law Amendment Act, 2002;
- reviewing the following items from the Provincial Auditor's *2002 Annual Report:*
  - Ministry of Finance—Corporations Tax Program and the Public Accounts of the province;
  - Ministry of Health and Long-Term Care—Long-Term Care Facilities Activity;
  - Management Board Secretariat and the ministries of Environment, Finance, Health and Long-Term Care, Natural Resources, and Public Safety and Security—Consulting Services;
  - Ministry of Public Safety and Security—Community Services Program;
  - Ministry of Tourism and Recreation—Tourism Program;
  - Ministry of Training, Colleges and Universities—Training Division; and
  - the following follow-ups of recommendations contained in the *2000 Special Report on Accountability and Value for Money:*
    - Ministry of Public Safety and Security—Institutional Services and Young Offender Operations; and
    - Ministry of Natural Resources—Forest Management; and
- finalizing reports to the Legislature.

REPORTS OF THE COMMITTEE

GENERAL

The Committee issues its reports to the Legislature. These reports contain a précis of the information reviewed by the Committee during its meetings, together with comments and recommendations.

All committee reports are available through the Clerk of the Committee, thus enabling public access to full details of committee deliberations.

After the Committee tables its report in the Legislative Assembly, it requests that ministries or agencies respond within 120 days or within time frames stipulated by the Committee in its individual recommendations.

During the period from October 2002 to September 2003, the Committee submitted the following reports to the Legislative Assembly:

- *Report on Ontario Innovation Trust*;
- *Report on the Road User Safety Program*;
- *Report on the Integrated Justice Project*;
- *Report on the Food Industry Program*;
- *Report on Violence Against Women Program*;
- *Report on Community Reinvestment Fund*;
- *Report on Corporations Tax*;
- *Report on Training Division*;
- *Report on Long-Term Care Facilities*; and
- *Report on Consulting Services*.

FOLLOW-UP OF RECOMMENDATIONS MADE BY THE COMMITTEE

The Clerk of the Committee is responsible for following up on the actions taken on the Committee's recommendations by ministries or agencies. The Office of the Provincial Auditor confers with the Clerk to ascertain the status of the recommendations and, if considered necessary, brings any significant matters to the attention of the Legislature through the Provincial Auditor's Annual Report.

Detailed information on the Committee's recommendation respecting amendments to the *Audit Act* and other related matters is contained in Chapter Two of this report.

OTHER COMMITTEE ACTIVITIES

Canadian Council of Public Accounts Committees (CCPAC)

CCPAC consists of delegates from federal, provincial, and territorial public accounts committees from across Canada. CCPAC meets at the same time and place as the Canadian Council of Legislative Auditors (CCOLA) to discuss issues of current interest. The twenty-fourth annual meeting of CCPAC was held in Winnipeg, Manitoba from September 14 to 16, 2003. The annual CCPAC and CCOLA meetings also permit the delegations to participate in a joint session to discuss subjects of mutual interest to politicians and legislative auditors. The 2003 joint session with CCOLA was on the subject of "Reporting Principles and Parliamentary Effectiveness." Due to the dissolution of the Ontario Legislature on September 2, 2003, it was not possible for Ontario to be represented at the 2003 meeting of CCPAC.

Exhibits

Exhibits

Exhibits

EXHIBIT ONE

Agencies of the Crown

(I) Agencies whose accounts are audited by the Provincial Auditor

AgriCorp
Algonquin Forestry Authority
Cancer Care Ontario
Centennial Centre of Science and Technology
Chief Election Officer, *Election Finances Act*
Election Fees and Expenses, *Election Act*
Financial Services Commission of Ontario
Grain Financial Protection Board, Funds for Producers of Grain Corn, Soybeans and Canola
Investor Education Fund, Ontario Securities Commission
Legal Aid Ontario
Liquor Control Board of Ontario
Livestock Financial Protection Board, Fund for Livestock Producers
Northern Ontario Heritage Fund Corporation
North Pickering Development Corporation
Office of the Assembly
Office of the Environmental Commissioner
Office of the Information and Privacy Commissioner
Office of the Children's Lawyer
Office of the Ombudsman
Ontario Clean Water Agency (December 31)
Ontario Development Corporation
Ontario Educational Communications Authority
Ontario Electricity Financial Corporation
Ontario Exports Inc.
Ontario Financing Authority
Ontario Food Terminal Board
Ontario Heritage Foundation
Ontario Housing Corporation (December 31)
Ontario Immigrant Investor Corporation
Ontario Media Development Corporation
Ontario Municipal Economic Infrastructure Financing Authority
Ontario Northland Transportation Commission (December 31)
Ontario Place Corporation
Ontario Racing Commission
Ontario Realty Corporation
Ontario Securities Commission
Ontario SuperBuild Corporation
Ontario Tourism Marketing Partnership Corporation
Owen Sound Transportation Company Limited
Province of Ontario Council for the Arts
Provincial Judges Pension Fund, Provincial Judges Pension Board
Public Guardian and Trustee for the Province of Ontario
Toronto Area Transit Operating Authority
TVOntario Foundation

(II) Agencies whose accounts are audited by another auditor under the direction of the Provincial Auditor
Board of Community Mental Health Clinic, Guelph
Motor Vehicle Accident Claims Fund
Niagara Parks Commission (October 31)
Ontario Mental Health Foundation
St. Lawrence Parks Commission
Workplace Safety and Insurance Board (December 31)

Notes:

1. Dates in parentheses indicate fiscal periods ending on a date other than March 31.
2. Changes during the 2002/03 fiscal year:

   Additions:
   - Motor Vehicle Accident Claims Fund
   - Ontario Municipal Economic Infrastructure Financing Authority
   - Owen Sound Transportation Company Limited

EXHIBIT TWO

Crown-controlled Corporations

Corporations whose accounts are audited by an auditor other than the Provincial Auditor, with full access by the Provincial Auditor to audit reports, working papers, and other related documents
Access Centre for Community Care in Lanark, Leeds and Grenville
Access Centre for Hastings and Prince Edward Counties
Algoma Community Care Access Centre
Art Gallery of Ontario Crown Foundation
Baycrest Hospital Crown Foundation
Board of Funeral Services
Brant Community Care Access Centre
Brock University Foundation
Carleton University Foundation
CIAR Foundation (Canadian Institute for Advanced Research)
Canadian Opera Company Crown Foundation
Canadian Stage Company Crown Foundation
Chatham/Kent Community Care Access Centre
Cochrane District Community Care Access Centre
Community Care Access Centre (CCAC) – Oxford
Community Care Access Centre for Huron
Community Care Access Centre for Kenora and Rainy River Districts
Community Care Access Centre for the Eastern Counties
Community Care Access Centre Niagara
Community Care Access Centre of Halton
Community Care Access Centre of London and Middlesex
Community Care Access Centre of Peel
Community Care Access Centre of Waterloo Region
Community Care Access Centre Wellington-Dufferin
Community Care Access Centre of York Region
Community Care Access Centre Perth County
Community Care Access Centre Simcoe County
Community Care Access Centre Timiskaming
Community Care Access Centre of The District of Thunder Bay
Deposit Insurance Corporation of Ontario
Durham Access to Care
East York Access Centre for Community Services
Education Quality and Accountability Office
Elgin Community Care Access Centre
Etobicoke Community Care Access Centre

Exhibit Two

Corporations whose accounts are audited by an auditor other than the Provincial Auditor, with full access by the Provincial Auditor to audit reports, working papers, and other related documents (continued)

Foundation at Queen's University at Kingston
GO Transit
Grand River Hospital Crown Foundation
Grey-Bruce Community Care Access Centre
Haldimand-Norfolk Community Care Access Centre
Haliburton, Northumberland and Victoria Long-Term Care Access Centre
Hamilton Community Care Access Centre
Hydro One Inc.
Kingston, Frontenac, Lennox and Addington Community Care Access Centre
Lakehead University Foundation
Laurentian University of Sudbury Foundation
Manitoulin-Sudbury Community Care Access Centre
McMaster University Foundation
McMichael Canadian Art Collection
Metropolitan Toronto Convention Centre Corporation
Mount Sinai Hospital Crown Foundation
National Ballet of Canada Crown Foundation
Near North Community Care Access Centre
Nipissing University Foundation
North York Community Care Access Centre
North York General Hospital Crown Foundation
Ontario Family Health Network
Ontario Foundation for the Arts
Ontario Lottery and Gaming Corporation
Ontario Mortgage Corporation
Ontario Municipal Employees Retirement Board
Ontario Pension Board
Ontario Power Generation Inc.
Ontario Trillium Foundation
Ottawa Community Care Access Centre
Ottawa Congress Centre
Renfrew County Community Care Access Centre
Royal Botanical Gardens Crown Foundation
Royal Ontario Museum
Royal Ontario Museum Crown Foundation
Ryerson Polytechnic University Foundation
Sarnia/Lambton Community Care Access Centre
Scarborough Community Care Access Centre
Science North
Shaw Festival Crown Foundation
Smart Systems for Health Agency
St. Clair Parks Commission
St. Michael's Hospital Crown Foundation
Stadium Corporation of Ontario Limited
Stratford Festival Crown Foundation
Sunnybrook Hospital Crown Foundation

Corporations whose accounts are audited by an auditor other than the Provincial Auditor, with full access by the Provincial Auditor to audit reports, working papers, and other related documents (continued)

The Peterborough Community Access Centre Incorporated
Toronto Community Care Access Centre
Toronto East General Hospital Crown Foundation
Toronto Hospital Crown Foundation
Toronto Islands Residential Community Trust Corporation
Toronto Symphony Orchestra Crown Foundation
Trent University Foundation
University of Guelph Foundation
University of Ottawa Foundation
University of Toronto Foundation
University of Waterloo Foundation
University of Western Ontario Foundation
University of Windsor Foundation
Waterfront Regeneration Trust Agency
Wilfrid Laurier University Foundation
Windsor/Essex Community Care Access Centre
Women's College and Wellesley Central Crown Foundation
York Community Care Access Centre
York University Foundation

Notes:
Changes during the 2002/03 fiscal year:
Deletions:

- Big Thunder Sports Park Ltd.
- Dairy Farmers of Ontario

Exhibit Two

EXHIBIT THREE

Treasury Board Orders

Under sub-section 12(2)(e) of the *Audit Act*, the Provincial Auditor is required to annually report all orders of the Management Board of Cabinet authorizing payments in excess of appropriations, stating the date of each order, the amount authorized, and the amount expended. These are outlined in the following table.

Amounts Authorized and Expended Thereunder Year Ended March 31, 2003

Ministry	Date of Order	Authorized $	Expended $
Agriculture and Food	Oct. 31, 2002	52,000,000	52,000,000
	Feb. 27, 2003	33,349,200	32,850,270
	Apr. 17, 2003	3,040,100	—
		88,389,300	84,850,270
Attorney General	Feb. 27, 2003	57,355,300	50,390,240
	Apr. 3, 2003	1,489,200	1,489,152
	Apr. 24, 2003	700,000	697,432
		59,544,500	52,576,824
Cabinet office	Apr. 17, 2003	452,000	412,543
Citizenship	Apr. 17, 2003	2,023,800	1,613,539
Community, Family and Children's Services	Feb. 13, 2003	18,506,300	18,506,300
	Mar. 27, 2003	35,320,000	24,721,647
		53,826,300	43,227,947
Consumer and Business Services	Feb. 13, 2003	9,448,400	8,136,585
	Feb. 26, 2003	200,000	200,000
		9,648,400	8,336,585
Culture	Feb. 20, 2003	1,000,000	997,000
	Apr. 17, 2003	2,199,000	2,048,939
		3,199,000	3,045,939
Education	Mar. 6, 2003	262,713,600	258,195,711
	Mar. 27, 2003	51,300,000	28,778,504
		314,013,600	286,974,215
Enterprise, Opportunity and Innovation	Apr. 3, 2003	685,000	519,467

Exhibit Three

Ministry	Date of Order	Authorized $	Expended $
Environment and Energy	Feb. 6, 2003	2,500,000	2,470,204
	Feb. 26, 2003	500,000	385,220
	Feb. 26, 2003	1,440,000	1,440,000
	Mar. 27, 2003	3,828,400	2,526,311
		8,268,400	6,821,735
Finance	Jan. 16, 2003	52,147,400	52,147,400
	Jan. 23, 2003	30,385,800	16,351,024
	Feb. 27, 2003	7,345,800	411,531
		89,879,000	68,909,955
Office of Francophone Affairs	Dec. 12, 2002	37,500	—
	Apr. 17, 2003	57,400	—
		94,900	—
Health and Long-Term Care	Feb. 13, 2003	59,000,000	58,620,532
	Mar. 20, 2003	155,728,300	140,472,237
	Apr. 3, 2003	33,469,200	23,716,163
		248,197,500	222,808,932
Labour	Mar. 20, 2003	1,797,300	900,258
Office of the Lieutenant Governor	Nov. 28, 2002	94,800	93,584
Management Board Secretariat	Oct. 3, 2002	56,239,500	44,966,780
	Mar. 6, 2003	23,799,000	22,001,149
		80,038,500	66,967,929
Municipal Affairs and Housing	June 27, 2002	1,250,000	1,250,000
	Aug. 13, 2002	2,500,000	2,206,066
	Sept. 12, 2002	1,586,000	1,586,000
	Mar. 27, 2003	496,700	496,700
	Mar. 27, 2003	11,000,000	10,997,487
	Mar. 27, 2003	1,140,000	—
	Mar. 27, 2003	4,152,000	1,792,448
		22,124,700	18,328,701
Natural Resources	June 20, 2002	7,500,000	7,500,000
	Aug. 8, 2002	30,000,000	30,000,000
	Feb. 13, 2003	4,634,300	4,451,296
	Mar. 6, 2003	4,898,600	4,898,600
	Mar. 20, 2003	9,936,100	6,340,309
		56,969,000	53,190,205
Northern Development and Mines	Mar. 20, 2003	794,400	602,051
Office of the Premier	Feb. 27, 2003	736,200	728,516
Public Safety and Security	Aug. 8, 2002	29,071,100	29,071,100
	Dec. 12, 2002	86,482,400	86,482,400
	Feb. 13, 2003	89,386,800	87,170,944
	Mar. 20, 2003	52,099,700	45,413,633
	Apr. 17, 2003	283,600	224,321
		257,323,600	248,362,398

Exhibit Three

Ministry	Date of Order	Authorized $	Expended $
Tourism and Recreation	Apr. 17, 2003	2,169,000	740,502
Training, Colleges and Universities	Feb. 12, 2003	4,200,000	3,500,000
	Feb. 12, 2003	315,600	315,600
	Mar. 6, 2003	53,321,200	50,984,665
		57,836,800	54,800,265
Transportation	Feb. 27, 2003	1,596,000	1,583,367
	Mar. 27, 2003	22,677,000	21,064,861
	Apr. 3, 2003	10,740,000	9,926,284
		35,013,000	32,574,512
TOTAL TREASURY BOARD ORDERS		**1,393,119,000**	**1,257,386,872**

EXHIBIT FOUR

The *Audit Act*

R.S.O. 1990, Chapter A.35

Amended by: 1999, c. 5, s. 1; 1999, c. 11.

Definitions

1. In this Act,

"agency of the Crown" means an association, authority, board, commission, corporation, council, foundation, institution, organization or other body,

(a) whose accounts the Auditor is appointed to audit by its shareholders or by its board of management, board of directors or other governing body,

(b) whose accounts are audited by the Auditor under any other Act or whose accounts the Auditor is appointed by the Lieutenant Governor in Council to audit,

(c) whose accounts are audited by an auditor, other than the Auditor, appointed by the Lieutenant Governor in Council, or

(d) the audit of the accounts of which the Auditor is required to direct or review or in respect of which the auditor's report and the working papers used in the preparation of the auditor's statement are required to be made available to the Auditor under any other Act,

but does not include one that the *Crown Agency Act* states is not affected by that Act or that any other Act states is not a Crown agency within the meaning or for the purposes of the *Crown Agency Act*; ("organisme de la Couronne")

"Assistant Auditor" means the Assistant Provincial Auditor; ("Vérificateur adjoint")

"Auditor" means the Provincial Auditor; ("Vérificateur")

"Board" means the Board of Internal Economy referred to in section 87 of the *Legislative Assembly Act*; ("Commission")

"Crown controlled corporation" means a corporation that is not an agency of the Crown and having 50 per cent or more of its issued and outstanding shares vested in Her Majesty in right of Ontario or having the appointment of a majority of its board of directors made or approved by the Lieutenant Governor in Council; ("société contrôlée par la Couronne")

"fiscal year" has the same meaning as in the *Ministry of Treasury and Economics Act*; ("exercice")

"inspection audit" means an examination of accounting records; ("vérification")

"Office of the Auditor" means the Office of the Provincial Auditor; ("Bureau du Vérificateur")

"public money" has the same meaning as in the *Financial Administration Act*. ("deniers publics") R.S.O. 1990, c. A.35, s. 1.

Office of the Auditor

2. The Office of the Provincial Auditor shall consist of the Auditor, the Assistant Auditor and such employees as may be required from time to time for the proper conduct of the business of the Office. R.S.O. 1990, c. A.35, s. 2.

Provincial Auditor

3. The Auditor shall be appointed as an officer of the Assembly by the Lieutenant Governor in Council on the address of the Assembly after consultation with the chair of the standing Public Accounts Committee of the Assembly. R.S.O. 1990, c. A.35, s. 3.

Tenure of office and removal

4. The Auditor may hold office until the end of the month in which he or she attains the age of sixty-five years and may be reappointed for a period not exceeding one year at a time until the end of the month in which he or she attains seventy years of age, but is removable at any time for cause by the Lieutenant Governor in Council on the address of the Assembly. R.S.O. 1990, c. A.35, s. 4.

Salary of Auditor

5.—(1) The Auditor shall be paid a salary within the highest range of salaries paid to deputy ministers in the Ontario civil service and is entitled to the privileges of office of a senior deputy minister. R.S.O. 1990, c. A.35, s. 5 (1); 1999, c. 5, s. 1 (1); 1999, c. 11, s. 1 (1).

Same

(2) The salary of the Auditor, within the salary range referred to in subsection (1), shall be determined and reviewed annually by the Board. 1999, c. 11, s. 1 (2).

Idem

(3) The salary of the Auditor shall be charged to and paid out of the Consolidated Revenue Fund. R.S.O. 1990, c. A.35, s. 5 (3).

Appointment of Assistant Auditor

6. The Assistant Auditor shall be appointed as an officer of the Assembly by the Lieutenant Governor in Council upon the recommendation of the Auditor. R.S.O. 1990, c. A.35, s. 6.

Duties of Assistant Auditor

7. The Assistant Auditor, under the direction of the Auditor, shall assist in the exercise of the powers and the performance of the duties of the Auditor and, in the absence or inability to act of the Auditor, shall act in the place of the Auditor. R.S.O. 1990, c. A.35, s. 7.

Qualifications

8. The persons appointed as Auditor and Assistant Auditor shall be persons who are licensed under the *Public Accountancy Act*. R.S.O. 1990, c. A.35, s. 8.

Audit of Consolidated Revenue Fund

9.—(1) The Auditor shall audit, on behalf of the Assembly and in such manner as the Auditor considers necessary, the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund whether held in trust or otherwise. R.S.O. 1990, c. A.35, s. 9 (1).

Audit of agencies of the Crown

(2) Where the accounts and financial transactions of an agency of the Crown are not audited by another auditor, the Auditor shall perform the audit, and, despite any other Act, where the accounts and financial transactions of an agency of the Crown are audited by another auditor, the audit shall be performed under the direction of the Auditor and such other auditor shall report to the Auditor. R.S.O. 1990, c. A.35, s. 9 (2).

Audit of Crown controlled corporations

(3) Where the accounts of a Crown controlled corporation are audited other than by the Auditor, the person or persons performing the audit,

- (a) shall deliver to the Auditor forthwith after completion of the audit a copy of their report of their findings and their recommendations to the management and a copy of the audited financial statements of the corporation;
- (b) shall make available forthwith to the Auditor, when so requested by the Auditor, all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the corporation specified in the request;
- (c) shall provide forthwith to the Auditor, when so requested by the Auditor, a full explanation of work performed, tests and examinations made and the results obtained, and any other information within the knowledge of such person or persons in respect of the corporation. R.S.O. 1990, c. A.35, s. 9 (3).

Exhibit Four

Additional examination and investigation

(4) Where the Auditor is of the opinion that any information, explanation or document that is provided, made available or delivered to him or her by the auditor or auditors referred to in subsection (2) or (3) is insufficient, the Auditor may conduct or cause to be conducted such additional examination and investigation of the records and operations of the agency or corporation as the Auditor considers necessary. R.S.O. 1990, c. A.35, s. 9 (4).

Information and access to records

10. Every ministry of the public service, every agency of the Crown and every Crown controlled corporation shall furnish the Auditor with such information regarding its powers, duties, activities, organization, financial transactions and methods of business as the Auditor from time to time requires, and the Auditor shall be given access to all books, accounts, financial records, reports, files and all other papers, things or property belonging to or in use by the ministry, agency of the Crown or Crown controlled corporation and necessary to the performance of the duties of the Auditor under this Act. R.S.O. 1990, c. A.35, s. 10.

Accommodation in ministries and Crown agencies

11. For the purposes of exercising powers or performing duties under this Act, the Auditor may station one or more members of the Office of the Auditor in any ministry of the public service, in any agency of the Crown and in any Crown controlled corporation and the ministry, agency or corporation shall provide such accommodation as is required for such purposes. R.S.O. 1990, c. A.35, s. 11.

Annual report

12.—(1) The Auditor shall report annually to the Speaker of the Assembly after each fiscal year is closed and the Public Accounts are laid before the Assembly, but not later than the 31st day of December in each year unless the Public Accounts are not laid before the Assembly by that day, and may make a special report to the Speaker at any time on any matter that in the opinion of the Auditor should not be deferred until the annual report, and the Speaker shall lay each such report before the Assembly forthwith if it is in session or, if not, not later than the tenth day of the next session. R.S.O. 1990, c. A.35, s. 12 (1).

Contents of report

(2) In the annual report in respect of each fiscal year, the Auditor shall report on,

(a) the work of the Office of the Auditor, and on whether in carrying on the work of the Office the Auditor received all the information and explanations required;

(b) the examination of accounts of receipts and disbursements of public money;

(c) the examination of the statements of Assets and Liabilities, the Consolidated Revenue Fund and Revenue and Expenditure as reported in the Public Accounts, and shall express an opinion as to whether the statements present fairly the financial position of the Province, the results of its operations and the changes in its financial position in accordance with the accounting principles stated in the Public Accounts applied on a basis consistent with that of the preceding fiscal year together with any reservations the Auditor may have;

(d) all special warrants issued to authorize payments, stating the date of each special warrant, the amount authorized and the amount expended;

(e) all orders of the Management Board of Cabinet made to authorize payments in excess of appropriations, stating the date of each order, the amount authorized and the amount expended;

(f) such matters as, in the opinion of the Auditor, should be brought to the attention of the Assembly including, without limiting the generality of the foregoing, any matter related to the audit of agencies of the Crown or Crown controlled corporations or any cases where the Auditor has observed that,

(i) accounts were not properly kept or public money was not fully accounted for,

(ii) essential records were not maintained or the rules and procedures applied were not sufficient to safeguard and control public property or to effectively check the assessment, collection and proper allocation of revenue or to ensure that expenditures were made only as authorized,

(iii) money was expended other than for the purposes for which it was appropriated,

(iv) money was expended without due regard to economy and efficiency, or

(v) where procedures could be used to measure and report on the effectiveness of programs, the procedures were not established or, in the opinion of the Auditor, the established procedures were not satisfactory. R.S.O. 1990, c. A.35, s. 12 (2).

Exhibit Four

Inspection audit

13.—(1) The Auditor may perform an inspection audit in respect of a payment in the form of a grant from the Consolidated Revenue Fund or an agency of the Crown and may require a recipient of such a payment to prepare and to submit to the Auditor a financial statement that sets out the details of the disposition of the payment by the recipient. R.S.O. 1990, c. A.35, s. 13 (1).

Obstruction of Auditor

(2) No person shall obstruct the Auditor or any member of the Office of the Auditor in the performance of an inspection audit or conceal or destroy any books, papers, documents or things relevant to the subject-matter of the inspection audit. R.S.O. 1990, c. A.35, s. 13 (2).

Offence

(3) Every person who knowingly contravenes subsection (2) and every director or officer of a corporation who knowingly concurs in such contravention is guilty of an offence and on conviction is liable to a fine of not more than $2,000 or to imprisonment for a term of not more than one year, or to both. R.S.O. 1990, c. A.35, s. 13 (3).

Idem, corporation

(4) Where a corporation is convicted of an offence under subsection (3), the maximum penalty that may be imposed upon the corporation is $25,000 and not as provided therein. R.S.O. 1990, c. A.35, s. 13 (4).

Examination on oath

14. The Auditor may examine any person on oath on any matter pertinent to any account subject to audit by the Auditor or in respect of any inspection audit by the Auditor and for the purpose of such an examination the Auditor has the powers conferred upon a commission under Part II of the *Public Inquiries Act*, which Part applies to the examination as if it were an inquiry under that Act. R.S.O. 1990, c. A.35, s. 14.

Proviso

15. Nothing in this Act shall be construed to require the Auditor,

(a) to report on any matter that, in the opinion of the Auditor, is immaterial or insignificant; or

(b) to audit or direct the audit of or report on the accounts of a body not referred to in this Act in the absence of such a requirement in any other Act in respect of the body. R.S.O. 1990, c. A.35, s. 15.

Attendance at standing Public Accounts Committee of the Assembly

16. At the request of the standing Public Accounts Committee of the Assembly, the Auditor and any member of the Office of the Auditor designated by the Auditor shall attend at the meetings of the committee in order,

(a) to assist the committee in planning the agenda for review by the committee of the Public Accounts and the annual report of the Auditor; and

(b) to assist the committee during its review of the Public Accounts and the annual report of the Auditor,

and the Auditor shall examine into and report on any matter referred to him or her in respect of the Public Accounts by a resolution of the committee. R.S.O. 1990, c. A.35, s. 16.

Special assignments

17. The Auditor shall perform such special assignments as may be required by the Assembly, the standing Public Accounts Committee of the Assembly, by resolution of the committee, or by a minister of the Crown in right of Ontario but such special assignments shall not take precedence over the other duties of the Auditor under this Act and the Auditor may decline an assignment by a minister of the Crown that, in the opinion of the Auditor, might conflict with the other duties of the Auditor R.S.O. 1990, c. A.35, s. 17.

Exhibit Four

Power to advise

18. The Auditor may advise appropriate persons employed in the public service of Ontario as to any matter that comes or that may come to the attention of the Auditor in the course of exercising the powers or performing the duties of Auditor. R.S.O. 1990, c. A.35, s. 18.

Audit working papers

19. Audit working papers of the Office of the Auditor shall not be laid before the Assembly or any committee of the Assembly. R.S.O. 1990, c. A.35, s. 19.

Staff

20. Subject to the approval of the Board and to sections 22, 25 and 26, the Auditor may employ such professional staff and other persons as the Auditor considers necessary for the efficient operation of the Office of the Auditor and may determine the salary of the Assistant Auditor and the salaries and remuneration, which shall be comparable to the salary ranges of similar positions or classifications in the public service of Ontario, and the terms and conditions of employment of the employees of the Office of the Auditor. R.S.O. 1990, c. A.35, s. 20.

Oath of office and secrecy and oath of allegiance

21.—(1) Every employee of the Office of the Auditor, before performing any duty as an employee of the Auditor, shall take and subscribe before the Auditor or a person designated in writing by the Auditor,

(a) the following oath of office and secrecy, in English or in French:

I, ..., do swear (*or* solemnly affirm) that I will faithfully discharge my duties as an employee of the Provincial Auditor and will observe and comply with the laws of Canada and Ontario and, except as I may be legally required, I will not disclose or give to any person any information or document that comes to my knowledge or possession by reason of my being an employee of the Office of the Auditor.

So help me God. (Omit this line in an affirmation)

(b) the following oath of allegiance, in English or in French:

I, ..., do swear (*or* solemnly affirm) that I will be faithful and bear true allegiance to Her Majesty Queen Elizabeth the Second (*or the reigning sovereign for the time being*), her heirs and successors according to law.

So help me God. (Omit this line in an affirmation)

R.S.O. 1990, c. A.35, s. 21 (1).

Idem

(2) The Auditor may require any person or class of persons appointed to assist the Auditor for a limited period of time or in respect of a particular matter to take and subscribe either or both of the oaths set out in subsection (1). R.S.O. 1990, c. A.35, s. 21 (2).

Record of oaths

(3) A copy of each oath administered to an employee of the Office of the Auditor under subsection (1) shall be kept in the file of the employee in the Office of the Auditor. R.S.O. 1990, c. A.35, s. 21 (3).

Cause for dismissal

(4) The failure of an employee of the Office of the Auditor to take and subscribe or to adhere to either of the oaths required by subsection (1) may be considered as cause for dismissal. R.S.O. 1990, c. A.35, s. 21 (4).

Benefits

22.—(1) The employee benefits applicable from time to time under the *Public Service Act* to civil servants who are not within a unit of employees established for collective bargaining under any Act apply or continue to apply, as the case may be, to the Auditor, the Assistant Auditor and to the full-time permanent and probationary employees of the Office of the Auditor and the Board or any person authorized by order of the Board may exercise the powers and duties of the Civil Service Commission and the Auditor or any person authorized in writing by the Auditor may exercise the powers and duties of a deputy minister under that Act in respect of such benefits. R.S.O. 1990, c. A.35, s. 22 (1).

Pension plan

(2) The Auditor and the Assistant Auditor are members of the Public Service Pension Plan. R.S.O. 1990, c. A.35, s. 22 (2).

Expert assistance

23. Subject to the approval of the Board, the Auditor from time to time may appoint one or more persons having technical or special knowledge of any kind to assist the Auditor for a limited period of time or in respect of a particular matter and the money required for the purposes of this section shall be charged to and paid out of the Consolidated Revenue Fund. R.S.O. 1990, c. A.35, s. 23.

Delegation of authority

24. The Auditor may delegate in writing to any other member of the Office of the Auditor authority to exercise any power or perform any duty of the Auditor other than reporting to the Assembly. R.S.O. 1990, c. A.35, s. 24.

Exhibit Four

Political activities of employees of the Office of the Auditor

25.—(1) An employee of the Office of the Auditor shall not,

(a) be a candidate in a provincial or federal election or in an election for any municipal office including a local board of a municipality within the meaning of the *Municipal Affairs Act*;

(b) solicit funds for a provincial, federal or municipal party or candidate; or

(c) associate his or her position in the Office of the Auditor with any political activity. R.S.O. 1990, c. A.35, s. 25 (1).

Cause for dismissal

(2) Contravention of any of the provisions of subsection (1) may be considered as cause for dismissal. R.S.O. 1990, c. A.35, s. 25 (2).

Conduct and discipline

26.—(1) The Auditor may make orders and rules for the conduct of the internal business of the Office of the Auditor and, after a hearing, may suspend, demote or dismiss any employee of the Office of the Auditor for cause. R.S.O. 1990, c. A.35, s. 26 (1).

Hearing

(2) The *Public Service Act* and regulations thereunder that apply in relation to suspension from employment pending an investigation and in relation to a hearing by a deputy minister or his or her delegate as to cause for dismissal, other than as to notice to the Civil Service Commission, apply with necessary modifications where the Auditor is of the opinion that there may exist cause for the suspension without pay, demotion or dismissal of an employee of the Office of the Auditor, and, for the purpose, the Auditor shall be deemed to be a deputy minister. R.S.O. 1990, c. A.35, s. 26 (2).

Appeals

(3) A decision of the Auditor to demote, suspend or dismiss an employee may be appealed by the employee, within fourteen days after the decision has been communicated to the employee to the Public Service Grievance Board established under the *Public Service Act*. R.S.O. 1990, c. A.35, s. 26 (3).

Exhibit Four

Grievance Board authorized to hear appeals

(4) The Public Service Grievance Board may hear and dispose of an appeal under this section and the provisions of the regulation under the *Public Service Act* that apply in relation to a grievance for dismissal apply with necessary modifications to an appeal under this section, and, for the purpose, the Auditor shall be deemed to be a deputy minister and the decision of the Public Service Grievance Board is final and the Public Service Grievance Board shall report its decision and reasons in writing to the Auditor and to the appellant. R.S.O. 1990, c. A.35, s. 26 (4).

Proceedings privileged

27.—(1) No proceedings lie against the Auditor, the Assistant Auditor, any person employed in the Office of the Auditor or any person appointed to assist the Auditor for a limited period of time or in respect of a particular matter, for anything he or she may do or report or say in the course of the exercise or the intended exercise of functions under this Act, unless it is shown that he or she acted in bad faith. R.S.O. 1990, c. A.35, s. 27 (1).

Information confidential

(2) The Auditor, the Assistant Auditor and each person employed in the Office of the Auditor or appointed to assist the Auditor for a limited period of time or in respect of a particular matter shall preserve secrecy with respect to all matters that come to his or her knowledge in the course of his or her employment or duties under this Act and shall not communicate any such matters to any person, except as may be required in connection with the administration of this Act or any proceedings under this Act or under the *Criminal Code* (Canada). R.S.O. 1990, c. A.35, s. 27 (2).

Examination of accounts of Office of the Auditor

28. A person or persons, not employed by the Crown or the Office of the Assembly, licensed under the *Public Accountancy Act* and appointed by the Board, shall examine the accounts relating to the disbursements of public money on behalf of the Office of the Auditor and shall report thereon to the Board and the chairman of the Board shall cause the report to be laid before the Assembly if it is in session or, if not, at the next session. R.S.O. 1990, c. A.35, s. 28.

Estimates

29.—(1) The Auditor shall present annually to the Board estimates of the sums of money that will be required for the purposes of this Act. R.S.O. 1990, c. A.35, s. 29 (1).

Review by Board

(2) The Board shall review and may alter as it considers proper the estimates presented by the Auditor, and the chair of the Board shall cause the estimates as altered by the Board to be laid before the Assembly and the Assembly shall refer the estimates laid before it to a committee of the Assembly for review. R.S.O. 1990, c. A.35, s. 29 (2).

Notice (3) Notice of meetings of the Board to review or alter the estimates presented by the Auditor shall be given to the chair and the vice-chair of the standing Public Accounts Committee of the Assembly and the chair and the vice-chair may attend at the review of the estimates by the Board. R.S.O. 1990, c. A.35, s. 29 (3).

Money (4) The money required for the purposes of this Act, other than under sections 5 and 23, shall be paid out of the money appropriated therefor by the Legislature. R.S.O. 1990, c. A.35, s. 29 (4).

Exhibit Four

ISSN 0843-4050